# Investment decisions in a changing South Africa from 1990 to 1999 (transition) — analysis of the decade of the 1990s

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**By**

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# DECLARATION

**I, Stanley Edward Harris, hereby declare that this thesis is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain a university qualification.**

# ABSTRACT

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**This study is an investment performance review covering the ten years from 1990 to 1999. To many investors the 1990s were a tough decade because of the political, economic and social changes, which caused investment uncertainty. The primary focus is to examine the implications of these changes during the 1990s on the investment strategies of South Africans. Furthermore, the aim is to provide insight into investment decision-making during the period of transition and transformation. The analyses specifically address the importance of the investment environment on portfolio construction and maintenance.**

**The objective is to see how far the investors ventured in their efforts to 'beat" the South African share market under changing conditions. The structure of the portfolio was evaluated as well as the investor's preferences and beliefs during the period under review. It also looked at the investors' attitudes and philosophies. Effective portfolio management was important because changing conditions were becoming challenging. The investor's investment mix and the risk associated with each investment determined the effectiveness of managing the portfolio. Furthermore, this study examines the investors' objectives, constraints and strategies.**

**In the final analysis, this study examines investment strategy and investment performance in retrospect. It presents a ten-year historical analysis of the South African environment which was affecting investment decisions. It was also found that investors were fulfilling their expectations, they were looking at medium and long-term investment opportunities. Furthermore, stock-picking was done with greater caution. The opening of global investment markets further enhanced the investment opportunities. Moreover the investors realised the importance of diversification in order to reduce risk.**

**The investors will be presented with challenges and opportunities in the next decade (or century). Therefore this study also concludes with an assessment of possible future investment scenarios for the South African investors.**

**Finally, investment decision was interpreted against the political, economical, social and other changes that took place during the period of transition. The key to investment success was the investor's ability to manage the changing South African environment.**

# OPSOMMING

**Hierdie studie is 'n oorsig van die beleggingsvaardighede gedurende die tydperk 1990 tot 1999. Vir baie beleggers was die negentigs 'n baie moeilike dekade as gevolg van die politieke, ekonomiese en sosiale veranderings. Hierdie veranderings het onsekerheid laat ontstaan by die beleggers. Die primêre fokus is om die implikasies van die veranderings op die beleggingsstrategieë van die Suid Afrikaanse belegger te ondersoek. Verder, is die doel ook om insig te bekom oor die beleggingsbesluitneming gedurende die periode van verandering en transformasie. Hierdie analise sal ook in besonder aandag gee aan die belangrikheid van die gepaardgaande beleggingsomgewing en op die konstruksie en instandhouding van die beleggingsportefeulje.**

**Die doel is om ook vas te stel hoe die beleggers gespekuleer het om die Suid Afrikaanse aandele mark te klop gedurende die periode van verandering. Die samestelling van die portefeulje is ge-evalueer sowel as die beleggers se voorkeure en menings. Daar is ook ondersoek ingestel na die belegger se houding en filosofie. Effektiewe beleggingsbestuur was belangrik gedurende die tydperk omdat die veranderde omstandighede uitdagend geword het. Die belegger se beleggingssamestelling en die gepaardgaande risiko het die doeltreffendheid van die bestuur van die portefeulje bepaal. Verder ondersoek hierdie studie ook die beleggers se doelwitte, beperkinge en strategieë.**

**In die finale analise is dit hoofsaaklik 'n retrospektiewe ontleding van beleggingbestuursvaardighede gedurende die 1990s. Dit is n tienjaar historiese analise van die Suid Afrikaanse beleggingsomgewing wat 'n invloed gehad het op die beleggingsbesluitnemings. Die beleggers het hul verwagtings goed hanteer en het gesoek na medium- en langtermyn beleggingsmoontlikhede. Bowendien is die beleggings gedoen met groter omsigtigheid. Die opening van die wêreld markte het ook groter beleggings-moontlikhede geskep. Verder het die beleggers ook besef dat diversifikasie belangrik is om risiko te verminder.**

**Beleggers sal te staan kom voor uitdagings sovel as gunstige beleggingsmoontlikhede in die volgende dekade (of eeu). Daarom sluit hierdie studie af met toekomstige beleggings-moontlikhede en die faktore wat sal bydra tot die toekomstige beleggingsaksie en besluitneming.**

**Ten slotte, die beleggingsbesluit is geïnterpreteer teen die politieke, ekonomiese en sosiale veranderinge wat plaasgevind het. Die sleutel tot die beleggingssukses was die vermoë van die beleggers om die veranderde omstandighede te kan hanteer.**

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# CHAPTER 1

# INTRODUCTION

**WAS THIS SOUTH AFRICA**

**DURING THE NINETEEN-NINETIES ?**

**It was the best of times, it was the worst of times.**
**It was the age of wisdom, it was the age of foolishness.**
**It was the epoch of belief, it was the epoch of incredulity.**
**It was the season of light, it was the season of darkness.**
**It was the spring of hope, it was the winter of despair.**
**We had everything before us, we had nothing before us.**
**We were all going direct to heaven.**
**We were all going the other way...**

**CHARLES DICKENS**
***A TALE OF TWO CITIES***

## 1.1 OVERVIEW OF THE INVESTMENT OUTLOOK DURING THE 1990s

The economic, political and social environment in South Africa since 1990 has been a point of discussion among investors, investment analysts, political commentators, academics and so many others. This period was exciting and intellectually stimulating. The question may be asked if this was the best of times for the South African investor or was it the opposite, the worst of times (Dickens above). Anstey (1999) suggests that the last decade has produced arguably the most far-reaching political and economic changes of the twentieth century. A similar opinion was expressed by Van Wyk in 1995 at the opening address of the fifth Winelands Conference on Public Management. He stated that "it was a period of reconstruction on just about every sphere of life." During the 1990s there was an increasing rate of change and this thesis looks at the identification and co-ordination of investment strategies to match or counter these changes. This thesis also provides an overview of portfolio management strategies during the 1990s when there were political, economic and social changes. There will always be changes in the future as well. It is an investment performance review of the investors' investment activities. Moreover, it is an attempt to offer many diverse insights into the South African investment environment that was facing both prosperity and growing uncertainty.

There are always efforts on the part of the investor to improve the performance of the portfolio. To this end various investment strategies were applied to forecast and improve the returns (often with mixed results). This thesis will ascertain the effectiveness of portfolio construction and maintenance. Especially, when there is a potential change in investment opportunities, which could affect the investors' decision-making. A detailed analysis of the investment environment was made to assess the results of the investment strategies. The concern to the investors was the valuation of the individual securities and how these securities combined into a well-balanced portfolio. The merits of the different investment strategies, which deal with changing conditions, will also be assessed. A number of other issues are also considered, including a political and economic overview, taxation and timing of the various financial instruments. Finally, the findings and conclusions on portfolio management strategies under changing conditions are examined.

The different scenarios under which investment decisions were made are discussed in this thesis. These scenarios include the following:

- Investment policy and objectives
- Investment analysis and valuations
- Portfolio construction
- Investment performance evaluation and feedback

In conclusion this investment commentary focuses on the investment choices faced by the individual and highlights the difficulties facing the investor in maintaining an efficient portfolio. Finally, the objective of this thesis is to determine how successfully or unsuccessfully the investors managed their investments under conditions of political, social and economic uncertainties.

## 1.2 BACKGROUND

The events of the 1990s will always remain highly topical because during the decade 1990 to 1999 South Africa was going through a process of major political and social reforms. Investors were unsure on how all these changes were going to affect their personal finances, especially income required from investments ( Rosenberg 1991, Chetty and Greyling 2001) These reforms brought about political and economic uncertainty and many investors considered the investment environment to be unstable and vulnerable (Koenderman 1996, Togni 1997).

The central issue here was change and in this regard Esterhuyse, (1996a) stated that change should be anticipated and should be managed and understood. Likewise, Esterhuyse (1996b) is of the opinion that the changes that were taking place in South Africa were a "renewal and generation of structures, organisational cultures, strategies, value systems and power relations". Investors had to assess how the transformation affected the social, economic and political systems. There was fear of change and fear of the unknown.

There were tensions during the period of social change and at times violent efforts were made to prevent social and political change (Bonnin, 1999). Differences arising from these changes were plentiful and conflicts arose which were in some instances violent (Hillliard, 1993). Anstey (1999) states that the 1990s were greeted with mixed aspirations and perceptions of what the future was holding for South Africa. He argues that these aspirations gave rise to social and political conflicts. However, he concludes that on the positive side these perceptions and aspirations eventually resulted in political negotiation and problem solving activities.

Melnikoff, (1998) states that acknowledging the past may not necessarily be a reliable predictor for the future, but for investors it may be the most meaningful analysis of history. Looking back at the past decade the investors can assess what lessons can be learned from the past. People were prepared to adapt and to make the most of what the country had to offer and they looked at the factors that determined the success of their investments. This thesis also addresses the investor's perception on transformation. These reforms also included financial changes, which resulted in investors making investment adjustments to actively manage their portfolios.

It was always to the benefit of the investor to look at the history of the returns and to understand the circumstances under which the returns were raised. This may be an important criterion on which to base future investment decisions.

The goal is to look at the overall investment return under the changing investment circumstances and how the investor took advantage of investment opportunities. Furthermore the investor looked at the new realities and therefore investment decision-making became a demanding responsibility. There will always be speculation on what the future holds and these speculations were very subjective. It was up to the investors to make sure that they acquired the information and knowledge regarding investments. They also had to determine how they were interpreting the information on which they based their investment decisions.

## 1.3 PROBLEM STATEMENT AND HYPOTHESIS

### *PROBLEM STATEMENT*

The purpose of this thesis is firstly to evaluate the investment environment from 1990 to 1999. Secondly, to assess the investment strategy and investment decisions based on the investment environment. Finally, the research problem is to establish how the investor managed the investment strategy.

The aim is to evaluate portfolio investment management in South Africa during the period 1990 to 1999 and to find reasons for the success or failure of the investment strategies that were applied. This study also intends to establish to what extent the political, economic and social changes in South Africa affected investment management. The problem statement is finding an answer to the success in manipulating investment strategy in a changing environment. Furthermore to determine the factors that played a role in the investment decision-making.

Finally, the period 1990 to 1999 had been dominated by major political social and economic changes which affected investment decision-making. The selection of an optimal portfolio and the exposure to the various investment attributes are evaluated against the investment policy and against the investors' specific decision environment.

***HYPOTHESIS***

Investors arranged their investments in such a way as to meet the changes and challenges that were taking place in South Africa. They adjusted their investment strategy to successfully meet the changes. The purpose of this research is to test if this was in fact the case. The objective is to test the hypothesis that "most" investors managed to cope successfully with their investment strategies during the period of change in South Africa.

South Africa had a changing investment environment due to political, social and economic changes, but the astute investor managed to invest successfully during this period. The objective is to establish how the investor coped with a changing investment environment during the 1990s. In conclusion, it can be stated that the key to investment success was the ability of the investors to adjust their strategy to cope with the changes that were taking place.

The next section will describe the purpose of analysing this problem and the methods used in determining the extent of the problem or hypothesis.

## 1.4 RESEARCH OBJECTIVE

The aim is to understand the challenges and opportunities as well as the constraints that the South African investor had to face in order to be successful with their investment efforts. The main theme is to investigate and evaluate investment performance from 1990 to 1999. Also to assess how the changing investment environment during the period of transition played a role in the final investment outcome. The objective of this study is to examine the investment environment and the individual investment strategies in order to determine the investment financial performance. Political, economic and social transitional changes from 1990 to 1999 created investment opportunities and threats. Furthermore the objective is also to determine how the investor coped with the changing South African situation.

The objectives can be grouped as follows:

**The first objective** is to evaluate the investment performance in order to:

- Consider the performance of the portfolio
- Review the actual performance against the changes that took place
- Find reasons why the investors portfolios performed the way they did.

**The second objective** is to understand the investment environment which played a role in determining the investment strategy and to some extent determined the investment's financial success or failure.

**The third objective** is to determine the factors that influenced the investment decisions and strategies and the effect on the investment performance. The aim is to look at the opportunities and threats that influenced the investment process.

**The fourth objective** is to analyse the investment strategies that were applied during the 1990s. In particular to review the following:

- the pro-active motives of investors
- the portfolio structure
- the investor perceptions
- the investment objectives and policies
- the identification of the investment assumptions that were made such as good or bad times to change strategy or when to buy or sell investments
- the identification of the variables, theories and methods applied
- the acquiring of a better understanding of investment behaviour and investment strategies.

In conclusion, the aim is also to find out to what extent the investors differed in their approach to investments and investment strategies. Also, writers on investments and the investment environment differed on what made up a successful environment and strategy. It also depended on the period during the 1990s that the article or book was written i.e. early or late 1990s.

## 1.5 RESEARCH PLAN

The detailed research methodology will be discussed in the relevant sections of this report. In addressing the problem of the investor's reaction to the changing South African environment it was important to analyse the investment trends during this period. The research process included an extensive literature review, as well as an analysis of 200 (a sample) investment portfolios from a well-known investment company. Investment analysts, investment advisors, individual investors and knowledgeable people on investments were interviewed and asked to complete the questionnaire as indicated in appendix G. The research methodology and the data analysis are extensively discussed in chapter three.

**The literature review:** The research plan was to analyse the writings of prominent South African writers and academics such as Bhana, Esterhuyse, van Zyl Slabbert, vd M Smit and Schlemmer. Many other writings on investments and related matters such as politics, economics and social issues were also researched. These writings shaped the public opinion on investment strategy and investment decisions. The scope of the literature review included in particular South African financial literature and literature about the investment environment.

## 1.6 RESEARCH LIMITATIONS

Information about investments and investment strategies is very sensitive and the ethical issues that accompanied discussions had to be considered. With this type of research undertaking it was important to ensure that there was no breach of investment confidentiality. People are generally not keen to discuss their investments or investment strategies, therefore openness during discussions was always a problem. Confidentiality had to be ensured and there was always a conscious effort not to infringe on the privacy of the individual. Commercially sensitive information that was obtained had to be treated with the highest degree of confidentiality. This was an important factor in the way this research was conducted. This became a barrier in the way of collecting information. However the research had to be done in a way that was ethically acceptable. The research data is therefore confined to individuals who were prepared to discuss their investment strategy or to make information available for this research effort.

The scope of this study, which is investment management under changing South African conditions, is extremely wide and the coverage of the entire spectrum will take considerable effort. Therefore in-depth discussions of the Johannesburg Stock Exchange, the fiscal policy or the monetary policy are not held in great detail. Also, discussions on the merits or demerits of the different types of investments are beyond the scope of this study. Details of the individual shares will not be discussed but reference will be made to listed and unlisted investments.

Discussions of the political and economic environments are confined to the research effort in so far as they are relevant to determine the investment environment. The investment portfolios that were analysed came from one investment company and therefore present a degree of bias in the sample selection. However, the sample covered investors located throughout South Africa.

## 1.7 STRUCTURE OF THIS REPORT

This thesis is about a period in the history of South Africa (1990 to 1999) and the events of the decade will be discussed in chronological order. Furthermore, the thesis is also about the investment process and investment management and again this process can be discussed in some logical sequence. Finally, there will be an attempt to combine the investment management process with the political, social and economic events, in a graph at the end of chapter two. The investment environment and investment management during the 1990s are the central focus of this study. The emphasis is on the individual investor.

The chapters in this thesis can be grouped into four sections:

**In part one**, chapter 2, the emphasis is on the investment environment.

**Part two**, chapter 3, considers the investment process.

**Part three,** chapter 4, analyses and evaluates the investment decisions during this period.

**Part four,** chapter 5, considers possible future investment scenarios.

For purposes of this thesis the investment environment and the management of investments will be grouped and reviewed under the following categories:

- **Political, economic and social environment**
- **Portfolio construction and maintenance**
- **Portfolio performance evaluation**
- **Future investment opportunities and constraints**

Before discussing the individual categories that are indicated above it could be argued that the order of these categories is to some extent a representation of the investment process. This structure will be consistently applied where possible throughout this thesis.

## 1.8 CONCLUSION

With all the changes taking place in South Africa, investment decision-making became a demanding responsibility for the investor. Investors should have had a clear vision of opportunities and threats that they were facing in the changing investment environment.

Investing consists of the trade-off between risk and return and the rationale is to obtain the highest return with the lowest amount of risk. This thesis concludes that given the investment barriers or opportunities the investors managed their portfolios profitably. There will always be changing investment circumstances and the investment goal will be to spot good investment opportunities. The objective is to maximise the investment return and to minimise the risk associated with investments. It is therefore important to maintain a balance between the risk exposure and the return on the investments. The risk-return relationship will be discussed in detail in chapter three. The success of the investment strategy depends on the investor's perceptions, attitudes and philosophies. The aim of this study revolves around the success of the investment strategy in a changing environment.

# CHAPTER 2

# SOUTH AFRICAN INVESTMENT ENVIRONMENT

**Like most countries in transition and societies experiencing Fundamental change, the South African environment of change is an ambiguous and even confusing environment.**
**Esterhuyse, W.P.** ***Challenges and Change.***

## 2.1 INVESTMENT ENVIRONMENT OVERVIEW

In this chapter consideration is given to the effects of the state, business and society on investment management. It provides a broad overview of the South African investment environment with its opportunities, promises and constraints to the investor.
During the decade 1990 to 1999 South Africa moved simultaneously:

- **From transition**
- **To transformation**
- **To reconstruction.**

There was a new economic, social and political culture (Bond, 2000). Insight into the events of the 1990s was essential in assessing investment, economic and political risks. The graph at the end of this chapter, figure 2.1 (see page 37) is an attempt to combine the state, business and society in order to explain the relationship. A detailed political and economic discussion will not be held. However, only the salient features that affected the investor and the investment environment will be examined. The objective is to establish an understanding of South Africa during the 1990s and to assess how the investor coped with the changing environment. Also, to establish the key factors that influenced the environment. The investors used the environment which may have been "confusing and conflicting" to venture into their profit-making investment strategies. Therefore the investment environment will in particular be examined against the investment strategies that were applied. The investor had to gain considerable insight into the opportunities and threats in the investment environment. During the early part of the decade political change was outstripping the economy's ability to keep pace. The political changes were rapid and ahead of the economy (Mitchell, 1990).

There were many features in the South African investment environment, but for the purpose of this exercise only the socio-political and the financial-economic aspects of the investment environment will be considered. In particular, an assessment will be made of the financial and capital market structure. The opportunities which were created by the environment and the Government for the investor were to encourage profit seeking and innovation. This chapter is concluded by graphically comparing the political, economic and financial events.

South Africa embarked on a political and economic recovery programme after the 1994 general elections. During the mid 1990s the ruling political party was expecting some form of economic reciprocation from the previous government. The new government introduced new measures to stimulate the economy such as increasing productivity and creating job opportunities. Furthermore, the objective is also to identify economic uncertainties in the monetary and fiscal policies i.e. interest rates and taxation policies.

## 2.2 POLITICAL AND SOCIAL ENVIRONMENT

There was a fundamental concern about the South African political environment in which the investors had applied their investment strategies (Koenderman, 1996). The investor had to identify the major factors which influenced the policies, such as the new tax policies to reduce the budget deficit and the new economic policies to stimulate the economy and to control inflation. Furthermore, the motives for introducing these policies also had to be established by the investor.

### 2.2.1 INTRODUCTION

Unstable social conditions prevailed before 1990 such as political unrest, social violence and crime (Hilliard, 1993). There was also a decline in the economy because of economic sanctions against South Africa. Internal strikes also contributed to the economic decline. During this period there was also increasing unemployment which was linked to the economic decline or stagnation (Stuart and Moore, 1988).

An important factor during this period was the outcry to make South Africa ungovernable. The obvious question can be asked how the investor would apply a profitable investment strategy in an environment that was ungovernable. During this period 1990 to 1999, politics dominated the media. Writers such as Van Zyl Slabbert, (1998) described the political situation during the first part of the 1990s as "an emerging and fragile democracy." It was a transition from the old order of apartheid to a new form of democracy.

The economic decline was due to sanctions and internal strikes, which caused social and political instability in the country (Hilliard, 1993.). This resulted in an increase in the level of crime, violence and corruption (Brown, 2001). There was also an increase in unemployment. The pro-sanctions attitude before 1990 saw an increase in disinvestment, sport isolation and global social isolation which led to a general social and economic decline in South Africa.

The political and social environment that affected the investment decisions can be divided into three periods, namely:

- **The period before 1990**
- **The period 1990 to 1994**
- **The period 1995 to 1999**

These periods will be discussed separately and the reasons for selecting these three periods are:

- Before 1990 was a period of economic decline that was caused by widespread economic and social sanctions. This period was also characterised by protests and demonstrations, and South Africans saw political and social violence and corruption.
- 1990 to 1994 was the period of the unbanning of political parties, political prisoners were freed, multi-party negotiations took place and a build-up to the general election in 1994.
- The period 1995 to 1999 is the post election phase and South Africa settled down to a period of political, social and economic consolidation.

### 2.2.2 THE PERIOD BEFORE 1990

The National Party were the governing party, which was under severe scrutiny from opposition groups within this country as well as from foreign activist groups and governments. During this period, pressures on South Africa mounted because of economic sanctions, corporate disinvestment and diplomatic and sports isolation.

On 8 May 1980 the Prime Minister P.W. Botha accepted proposals that would give coloureds and Indians an advisory voice through a Presidential Council and that Blacks should have their own advisory council. This proposal led to dissatisfaction (objection) within the ruling National Party as well as objections from the other political groups, but for different reasons. Strikes by workers, demonstrations, and clashes with church leaders, school boycotts and other opposing activities became evident. These clashes, boycotts and demonstrations characterised the political and social position in South Africa during the 1980s and early 1990s. Constitutional reform was further introduced on 3 February 1981 with the establishment of the Tri-Racial President's Council. It catered for whites, coloureds and Indians; blacks were excluded. On 9 September 1983 the three-chamber Parliament was approved. In August 1983 the United Democratic Front (UDF) was launched as an organised movement against the Government. This opposition was supported by the ANC (Welsh,1997). In 1984 the government introduced the tri-cameral system which led to nation-wide protests. The "armed struggle" intensified during the late 1980s because of the introduction of the tri-cameral system in 1984. This system divided Parliament into three houses, one each for whites, coloureds and Indians; blacks were excluded. And again this evoked massive violence in the black communities.

Due to the increasing opposition (violent at times) the State President P.W. Botha introduced major reforms. Below are some of the laws that were repealed during his term in office:

**1985** The Prohibition of Mixed Marriages Act was repealed

**1986** Pass laws were repealed

**1986** Job Reservation Laws were repealed.

In **1989** after the elections De Klerk took over as the State President.

Van Zyl Slabbert (1998) suggests that the decades until 1990 were the battleground for ideological conflict between the Nationalist Party (NP) and the African National Congress

(ANC) - the two main political opponents. During this period (the 1980s) the then government developed a total strategy against the opposition (ANC). The ANC in turn adopted the following strategies: democratic revolution, armed struggle, domestic mobilisation and underground struggle against the Government that was in power (van Zyl Slabbert 1998). Welsh (1997) agrees with Van Zyl Slabbert and states that the South African government faced an increasingly hostile international community. He argues that the protests during this period were fuelled by the state of repression. For example, the ANC encouraged the economic isolation of South Africa. The economy was badly affected by the isolation. Welsh described this period as "a total onslaught" against South Africa, which was spearheaded by the African National Congress and the South African Communist Party. There were also increased domestic violence and trade and consumer boycotts. Finally, Welsh is of the opinion that the international disinvestment campaign had "severely curtailed economic growth".

To conclude this section it can be stated, (Welsh 1997) that international sanctions and disinvestment were important influences on South Africa. More specifically, foreign capital played a role in the development of the South African economy.

The following are some of the examples of the sanctions that were imposed:

- The European Economic Community halted new investments and banned South African exports of gold coins, iron and steel.
- Japan imposed a ban on iron and steel and also imposed travel restrictions.
- The United States of America (USA) prohibited the import of South African uranium, coal, steel, textiles and agricultural products.
- A number of USA multi-nationals decided to pull out of South Africa, such as General Motors, IBM and Coca Cola.

Finally,this period was characterised by:

- Strategies to make the country ungovernable
- Political boycotts and stayaways
- Consumer boycotts and stayaways.

**With this background the investor entered the 1990s.**

### 2.2.3 THE PERIOD 1990 TO 1994

Nineteen-ninety saw the unbanning of former banned political organisations. There were jubilant scenes in the townships to celebrate the unbanning of these political organisations and the release of political prisoners. In spite of the jubilation, many were killed in political violence. This period was characterised by boycotts and stayaways. According to Kane-Berman (1993) the largest stayaway was the anti-VAT stayaway of 4 and 5 November 1991. The level of political violence dropped by 1993 (Kane-Berman 1993) because of the process of reconciliation and negotiation.

After the February 1990 speech by de Klerk, South Africa embarked on a process of a negotiated transition. The negotiations started (the Groote Schuur Minute), for peaceful negotiations to a political transition. A long and bumpy negotiation process coupled by opportunistic political violence marks this period. Van Zyl Slabbert (1998) suggests that there was a realisation that all South Africans could be accommodated within the same "nation state". He argues that people came to think that cultural, racial, and ethnic diversity could be accommodated within this nation state. The core of the negotiation was that South Africa should be seen as "one nation" with "one people"(Van Zyl Slabbert 1998). Finally he concludes that negotiations during the first half of the 1990s embraced the following:

- Inclusive "nation building" nationalism
- A liberal democratic constitution
- Economic growth driven by a competitive market economy.

The interim Constitution provided for a Government of National Unity (GNU) to govern the country for a period of five years from 1994 to 1999. After the 1994 elections the GNU was formed to function for five years. This coalition government with the ANC as the majority party brought together political parties that were politically far apart from each other. Welsh sees this coalition as an "unwilling marriage". Furthermore, this was a complex multiparty coalition government which many investors thought would never succeed in governing South Africa in the interim. Again this coalition caused many uncertainties. Also, the concept of a common destiny became important if the long-term interest of South Africa had to be considered.

However, what is important is how the investor coped during this process of transition, described by many as a very "fragile" period in the history of South Africa. The abandoning of the policy of racial separation and racial discrimination was the first process to start the decade. In the early 1990s South Africans was unsure of where the country was heading politically (Togni, 1997). There were many opinions expressed about the future and much was written about the financial future of South Africa. These opinions are highlighted in the literature, which covers the period to 1999. Many were particularly writing about the investment set-up in South Africa (Welsh, 1997). Some writers (Bhana and Konar 1993/93, Togni 1997, Welsh 1997) believed that there would be a profound change in the investment environment.

Nigel Worden in ***The Making of Modern South Africa*** highlights the following as the major events during this period:

**1990** "De Klerk unbans the ANC, PAC and Communist Party
Nelson Mandela is released from jail
Namibia obtains independence

**1991** Repeal of Group Areas, Land, and Population Registration Acts
Convention for a Democratic South Africa (CODESA) was formed to negotiate a democratic constitution

**1992** White referendum supports CODESA negotiations but they break down

**1993** Negotiations resumed at Kempton Park to form interim constitution

**1994** Election by universal franchise elects Government of National Unity with ANC majority
Mandela inaugurated as State President."

During this period black urbanisation was increasing and resulted in a shortage of housing and employment. Other social problems such as violence and crime also increased. This in turn placed a burden on the social services such as education, health and the police services. Social stability became an instant priority because of the crime, violence and unemployment.

In 1991 CODESA was established to institutionalised negotiations between the major political parties at the negotiating forum. This became a multi-party conference to negotiate the transition. Tucker and Scott (1992) in "*Perspectives for Successful Transition*" state that the major objective of CODESA was to plan for the formation of an interim government. They also suggest that CODESA was established to focus on the political aspects of the transitional process. Many conflicts arose out of the political disagreements. Furthermore the run-up to the 1994 general elections dominated the media.

### 2.2.4 THE PERIOD 1995 TO 1999

After the elections in 1994 the Government of National Unity (GNU) came into existence to govern for an initial period of five years. A multi-party cabinet was formed to govern jointly and political, social and economic changes were introduced in South Africa. There was a general "fix-it" strategy. Meeting "basic needs" and "building the economy" became a priority (Van Zyl Slabbert, 1998). Foreign interest in South Africa increased after the 1994 elections. South Africa was welcomed back from international isolation. Foreign relations became an important factor in the effort to encourage trade and to obtain foreign aid. For example, relations with the United States of America were strengthened in 1996. There were also cordial relations with Cuba, Libya and Iran. South Africa was also involved in peacekeeping efforts in Africa namely Zaire.

#### The post-election situation

Moller (1994) describes this period as the "post-election euphoria." She goes further by stating in a follow-up article that many South Africans were waiting for Utopia (1995). Many South Africans had high aspirations with regard to political and economic stability. And particularly the hope for peace. It was a period of reconciliation and brought a reduction in political discontent (Moller 1995). The idea of nation building became prominent after the 1994 elections. The aim was to create national unity and social stability. Some of the major events during this period included the following:

**1995** The GNU (Government of National Unity) was established and governed with many problems.

The Truth and Reconciliation Commission was set up by law.

**1996** The NP withdrew from the GNU.

The SA Constitutional Assembly accepted the new Constitution on 8 May 1996.

**1997** The Constitution came into force after certification by the Constitutional Court.

**1998** South Africa experienced an economic recession. Refer to the graph on page 37.

(The Asian financial crises caused a world recession, which affected South Africa).

**1999** On 2 June the ANC won the general election and Mbeki was inaugurated as president on 16 June 1999.

At the end of the decade South Africa was entering a consolidation phase. In this regard Esterhuyse (1996a :8) states that "institutions such as the Constitutional Court and The Human Rights Commission can be seen as confidence-building institutions".

### 2.2.5 CRIME, VIOLENCE AND CORRUPTION

#### CRIME AND VIOLENCE

In discussing the investment environment it is important to mention that crime and violence were contributors to the investment uncertainty that prevailed. Hilliard (1995) states that "unfortunately dishonesty has seeped into South African society and in some instances tended to become a way of life." He argues that people will try any means to make a living except the honest way. Both Brown (2001) and Hilliard (1993) are of the opinion that there is a link between South Africa's transition and the crime. Brown (2001: 269-270) made the following statement: ***"Rising crime may be typical in countries undergoing transition as democracy tends to compound crime by weakening the overbearing controls put in place by oppressive governments, while some citizens, who were opposed to the previous government, continue their lawlessness and confrontational behaviour."*** Brown who argues the crime problem from an economic viewpoint contends that on a macro level it influences international economic relations adversely and on a micro level it is an attack on public order and safety.

The Proceeds of Crime ACT No.76 of 1996 was adopted by Parliament. Agreements were undertaken with neighbouring countries to gain co-operation and to improve the police efforts against organised crime. Haefele refers to the destructive impact of organised crime and states that it is alleged that there is police complicity in the drug trade.

## ***Political violence***

The rise in political crime such as the assassination of Chris Hani in 1994 presented a negative image to investors who were looking for a stable investment environment. Bonnin (1999) states that "political violence transformed every aspect of peoples' lives." She argues that life became unpredictable and that it was necessary to be continually prepared and on guard. This type of environment did not do the investment cause any good because of the uncertainty. Finally, she concludes that living in some parts of South Africa i.e. Kwazulu Natal was like living in a war zone. Thefts and looting formed an integral part of the attacks.

## ***Farm Attacks***

The killing of farmers angers all people in society and at one stage there was an upsurge in the killings of farming families. This growing frequency of farm attacks is a consequence of criminality and is a serious problem for the agricultural communities (Geldenhuys, 2002). The gruesome murder of members of isolated farming communities and the slaughter of their livestock has caused uncertainty in the agricultural sector. This situation is not only unsettling to the farmers but also to the rest of the South African community. In 1998 the South African Agricultural Union met with the State President to discuss the seriousness of these criminal acts against the farming community (Jordaan, 2002).

## ***Pagad***

PAGAD stands for People Against Gangsterism and Drugs. This movement was formed in Cape Town in 1996 in a reaction to the crime and lawlessness in the Western Cape. Haefele (1998) states that the PAGAD leaders claim that the "police have become impotent in the face of the rule of powerful gangs which is partly due to the power of the gangsters and partly due to corruption in the police force." They (PAGAD) also claim to be a vigilante group. However, Haefele argues that in spite of their "good intentions" their activities are a destabilising force in the country, especially in the Western Cape. He claims that the vigilante activities of PAGAD damaged the peacekeeping cause of the South African police and diminished the effectiveness of the fight against criminals. Full details of PAGAD and its intentions and activities are beyond the ambit of this research undertaking and will not be discussed.

### *Fraud*

Bennett (Business Times July 2, 2000 :1) reports that a great fear in South Africa is the fear of computer fraud in collusion with organised crime. Bennett argues that the South African executives are likely to be among those who encounter fraud. Computer-related crime is the most likely to be experienced. What is disturbing as put forward by the Bennett is that there is the internal collusion with organised crime and that most big frauds "involve computers". It should be pointed out that fraud is an international issue and not only confined to South Africa. However, Bennett contends that South Africa stands out when it comes to cases of fraud.

Finally, during the latter part of the decade many organisations, in an attempt to reduce the risk of fraud, embarked on programmes to review fraud vulnerability. This type of organisational risk review looks at the areas where the organisation is most likely to be at risk of fraud.

## CORRUPTION

### *Political corruption*

Political corruption is a very broad topic but for purposes of this thesis it will be considered as embracing all kinds of mis-behaviour in state and semi-state departments. The South African government is committed to sound public finances (Lodge, 1998). He also argues that there were many allegations of political corruption. The most significant allegations of political mismanagement led to the resignation of National Party's Abe Williams Minister of Welfare in 1996. He was investigated by the Office for Serious Economic Offences. The other dismissal was Winnie Madikizela Mandela, the Deputy Minister of Arts and Culture in 1995. Lodge also mentions the "gravy train" concept that came to prominence in 1995 and which was an outcry against the greed of parliamentarians. Examples were expensive houses for parliamentarians and extensive travelling expenses. Scepticism towards the activities of elected officials was common. Above all, the various political parties accused each other of corruption.

### 2.2.6 OTHER SOCIAL ISSUES

***SPORT***

South Africa is a sport-loving country and sporting activities are considered to be important social activities for South Africans. After 1990 South Africa was gradually re-admitted to the world of sport. The unification in sport was seen as a precondition for the readmission to international competition.

**The following were some of the major sporting activities during this period:**

**1992** South Africa took part (after isolation) in the Cricket World Cup.

**1992** In August the Springbok rugby team played against the All Blacks. The All Blacks won the series.

**1995** The Rugby World Cup tournament took place in South Africa. The Springbok rugby team won the World Cup and winning the World Cup was considered a national glory.

**1995** The South African national football side Bafana Bafana under the captaincy of Neil Tovey won the African Nations Cup Tournament.

**1996 and 1999** the South African cricket team failed to win the Cricket World Cup.

**1997** On 5 September 1997 the South African bid to host the 2004 Olympics failed. A successful bid would have meant more job opportunities and a better transport system This was a unified attempt to host the 2004 Olympic Games.

**1999** South Africans worked to host the 2006 Soccer World Cup. The bid failed in 2000.

In summary, this section briefly discussed the socio-political environment and emphasised that the political developments were particularly relevant to investment decision-making. The political events dominated the decade and the transition promised new beginnings. It was a situation of rising expectations, for example, the lifting of sanctions promised improved economic conditions. However, there was the uncertainty about the untried new form of political order. Furthermore, the investor was looking for a secure investment environment and the rising level violence did not put the investor at ease.

## 2.3 ECONOMIC ENVIRONMENT

***OVERVIEW***

The purpose of this section is to provide a brief overview of the economic environment and to review the economic management of South Africa during the 1990s. In fact, the success of maintaining an efficient investment portfolio depended on how the investors understood and managed the economy. The economic significance was assessed through the investment trading strategy. Therefore the investments needed to be evaluated against the economic expansion. Growth forecasts also had a bearing on the future performance of the market because the volatility of the market was linked to the economic conditions.

Van der Walt and Pretorius discussed the South African business cycles for the period 1986 to 1993 (SARB Quarterly Bulletin March 1995:33). They argued that towards the end of 1992 and early in 1993 the internal unrest, violence and the uncertainties about the outcome of political negotiations caused investors' confidence to deteriorate. The downward phase of the business cycle from March 1989 to May 1993 was influenced by factors such as domestic political transformation, serious droughts and a drop in employment levels. Furthermore this recession (the period 1989 to 1993) should be seen against the socio-political change in this country. They concluded that this down period in the South African economic history, 1989 to 1993 was "indicative of an economy struggling to overcome the economic side-effects of political transformation".

Similarly, Pretorius, Venter and Weideman continued this discussion on the South African economic conditions for the period 1993 to 1997 (SARB Quarterly Bulletin March 1999). In their analysis of this business cycle from 1993 to 1997 they believed that the following were the main factors that impacted on economic growth during this period:

- Removal of trade and financial sanctions after the 1994 elections
- Policy steps taken to correct macro-economic imbalances
- The abolition of the financial Rand in March 1995 and the gradual relaxation of exchange control measures.

They stated that these changes led to the increase in export volumes and a downward trend in inflation. Refer to the table 2.1 on page 28 for the inflation figures. Finally, they contend that after 1996 there was a "cooling off" of the economic growth phase. This was partly due to international economic developments, which impacted on South Africa.

### 2.3.1 INTRODUCTION

Stuart and Moore (1988) reported on economic prospects for 1988 and 1989 in The Bureau for Economic Research (BER) July 1988:10-11 and made the comment that: "Due to a quicker than expected realignment in world trade, most economic analysts have revised forecasts for growth upwards." This economic comment also stated that in spite of the improved outlook for the world economy the BER had revised its forecasts downwards for South Africa due to declines in export volumes and the possibility of additional sanctions being imposed (1988 and 1989).

However, a few years later Stuart, BER report October 1994:7 reflected a much brighter outlook for South Africa. The report stated that vigorous growth in the economy of South Africa was expected due to increased import and export activities. Finally, the report concluded that movements of the magnitudes of imports and exports would largely determine the strength and duration of the current upswing.

The two statements above i.e. 1988 and 1994 summed up the economic environment for the investors during this period. There were many variations of these two extreme positions, 1988 negative and 1994 positive, to which the investor had to adjust. Sanctions were gradually lifted with the opening of the constitutional talks and the South African economy was growing again in 1993. The final sanctions were lifted after the general elections in 1994.

Welsh (1997: 26) highlights the following as the reasons for change between 1988 and 1994:

- Continuing economic decline
- International sanctions campaign
- Big gap between rich and poor
- Economic and social discrepancies
- Need for economic renewal and social upliftment

The unsettled political order had put a damper on prosperous economic expectations. South Africans experienced a period of economic stagnation due to the boycotts and economic sanctions. Investors were looking for a situation where economic success could enhance the investment initiatives. The economic decline was one of the main reasons why there was the need for some form of economic reform. This decline had a negative effect on the political and social stability of the country because unemployment and crime increased. This was discussed in some detail in this chapter. The Disinvestment and Sanctions Campaign against South Africa caused economic instability, which was not conducive to a good investment environment. In spite of all this i.e. sanctions and boycotts the then governor of the South African Reserve Bank, Chris Stals tried to reduce the inflation rate to below 10%. Socio-political reforms during the period under review resulted in the termination of international sanctions and it also ended the disinvestment initiatives against South Africa.

At the end of the decade (the 1990s) the political, social and economic situation had changed and the country was moving forward from the low economic growth brought about by economic and social sanctions. By 1999 we saw the integration of the national economy into a competitive international trade environment. The government was trying to implement higher economic growth and investment potential. There-upon Wesso (2001) states that real domestic growth can be seen as an indication of a favourable domestic investment climate and therefore have regular capital inflows and outflows. Bodie, Kane and Marcus (1999:3) also comments that "the material wealth of a society is determined ultimately by the productive capacity of its economy - goods and service that can produced by to its members." The productive capacity of South Africa was eventually realised internally and internationally because imports and exports increased (Stuart 1994).

### 2.3.2 FISCAL POLICY

Fiscal policy involves the level of government spending and taxation of individuals and companies. It falls under the control of the Minister of Finance. The discussions that follow are only a brief examination of the fiscal policies during the decade 1990 to 1999. Fiscal policy can be judged in terms of living standards and the impact on the rate of investment. And also by the impact on trade. In the 1980s and the early 1990s there was an increase in government debt due to increased government expenditure (1980 to 1993). This led to a substantial increase in the South African budget deficit. The increased government expenditure was in turn recovered by an increase in the tax base. Fiscal policy includes taxation and public expenditure which is how the government spends its funds and how the government is financed. The government is assessed in terms of budget management i.e. budget surplus or budget deficit. There will always be pressure on the government to reduce the budget deficit and to increase savings.

The need for tax reform was realised in the 1980's when the Margo Commission (1983) was asked to report on the South African tax system. The need for tax reform was again realised in 1994 when the Katz Commission was appointed to investigate the appropriateness and efficiency of the tax system and to recommend improvements. The scrutiny of the efficiency of the state expenditure was also one of the mandates given to this commission. This commission (1994) subsequently devoted a large portion of its report to tax administration and improvements in the tax administration system.

It was soon advocated that tax reform should conform to the new South African developments. A new tax structure was gradually introduced to minimise uncertainty. One of the main aims of the post-election budget in June 1994 was to reduce the budget deficit. There was an overall increase in this country's tax burden. And this tax burden was borne mostly by the individual taxpayers. It was a tax increase to reduce the budget deficit (Coetzee, 1995).

The South African Reserve Bank Annual Economic Report (1994:49) stated that the first budget of the Government of National Unity (GNU) 1994, outlined the following fiscal strategy :

- Laying a financial base for the implementation of the RDP
- Fiscal discipline to ensure economic growth
- Macro economic stabilisation
- Reduction in the budget deficit
- Improve the co-ordination between the Department of Finance and other state expenditures
- Setting budgetary priorities and evaluating expenditure requests
- Ensuring prudent fiscal management

This was also the strategy that was applied for the rest of the decade with special emphasis on maintaining fiscal discipline and sound financial management by the Department of Finance. Value-added tax (VAT) was introduced on 30 September 1991 and replaced the general sales tax. In 1993 withholding tax on distributed dividends of 15% was imposed to encourage investment out of retained profits. Non-resident shareholders tax was abolished in 1995 to improve the investment environment for foreign investors. In 1996 the "GEAR" (Growth, Employment and Redistribution) policy was announced to stimulate economic growth and thereby create employment. By the end of 1999 the government continued to consolidate the fiscal position and improved the management of public finance. Advances to strengthen fiscal discipline and improvements in cash management were an integral part of the government's financial restructuring. The fiscal policy was primarily concerned with economic prosperity through its RDP and GEAR programmes.

### 2.3.3 MONETARY POLICY

*McGregor's Dictionary of Stock Market Terms (1988),* states that "Monetary policy is the policy of the Government, through the Reserve Bank, towards the expansion or contraction of money supply". Monetary policy is also the control of the economy through measures to regulate the size of the money supply. The objective of the monetary policy was to secure a stable financial environment and in order to achieve this objective a fairly restrictive monetary policy was developed. Initially this monetary policy could not be successfully implemented because of factors such as the high inflation rates and balance of payments situation prior to 1994. The deterioration in the value of the Rand also contributed to monetary policy problems.

The monetary policy was intended to stimulate the economic growth rate and to ensure financial stability by controlling inflation. Table 2.1 shows that the monetary policy of controlling inflation resulted in a reduction of the inflation rate. The South African Reserve Bank annual economic report 1995 states that "the South African Reserve Bank continued in 1994 and the first half of 1995 to operate within a monetary policy framework with price stability as the ultimate motive." The monetary policy formed part of the broader South African economic policy. Throughout the decade the ultimate objective of the monetary policy was the maintenance of financial stability. This was considered to be an important requirement for economic growth. To meet the above objective the South African Reserve Bank (SARB) had to monitor the level of interest rates, the level of changes in gold and other reserves. Fluctuations in the exchange rates of the Rand also became an important consideration.

At the end of the decade the government decided on an inflation-targeting approach as part of their new monetary policy (see section 5.8). The aim of the inflation target was to contain inflation. Moreover, the financial-targeting concept was subsequently used as the principle indicator for taking monetary policy decisions. For this policy to be successful the fiscal policy of the government had to match the monetary policy of the South African Reserve Bank. The SARB made appropriate adjustments in harmonising monetary and fiscal policies towards attaining financial stability, which was in the interest of the investor.
Other aspects of the monetary policy framework will also be briefly discussed.

#### *2.3.3.1 Inflation*

Stals stated in 1990 at the annual Financial Mail investment conference that the mission statement of the Reserve Bank was to reduce the inflation rate of South Africa. The objective was to bring inflation in line with countries with which South Africa do business or compete with. This comment referred to the South African situation where there was a prolonged period of double-digit inflation. Since the announcement of Stals in 1990, slow progress was made during his period in office to reduce inflation and this has had an effect on the composition of portfolios.

Table 2.1 indicates that South Africa had a high inflation rate at the beginning of the decade (14.2 percent) and ended the 1990s with a stable and low inflation rate (5.2 percent). A significant feature of this table is the gradual decline of the inflation rate and a steady increase in the consumer price index. Price increases had become a South African way of life and investors had to balance the investment strategy with increase prices. Table 2.1 also indicates that the inflation rate has reduced from the double-digit levels since 1992. Although the inflation rate is relatively moderate if compared with other developing countries (South America, i.e. Brazil 20 percent and more) it is high if compared with its major trading partners (UK and USA 5 percent). Table 2.1 shows a year-on-year slowdown in the overall rate of inflation. However, high inflation will reduce the value of South African assets. Inflation has the disadvantage to discourage investments because people will not spend their money if they expect the future value to be less.

Table 2.1

| CONSUMER PRICES AND INFLATION | | | |
|---|---|---|---|
| Consumer price index 1995 = 100 | | | |
| Year | All items % | Inflation % | Food % |
| 1990 | 58.6 | 14.2 | 50.5 |
| 1991 | 67.6 | 15.4 | 60.5 |
| 1992 | 77.0 | 13.9 | 75.7 |
| 1993 | 84.5 | 9.7 | 80.9 |
| 1994 | 92.0 | 8.9 | 92.0 |
| 1995 | 100.0 | 8.7 | 100.0 |
| 1996 | 107.4 | 7.4 | 106.1 |
| 1997 | 116.6 | 8.6 | 116.1 |
| 1998 | 124.6 | 6.9 | 123.3 |
| 1999 | 131.1 | 5.2 | 129.3 |

**Source : Statistics South Africa, Pretoria, 2001.**
***Statistics South Africa 2000*, p. 8.19**

### *2.3.3.2 Exchange control*

Before 1990 the De Kock Commission suggested a gradual relaxation of exchange controls on individuals. The "liberation" of exchange control in the early 1990s was part of the macroeconomic policy changes that were applied to both the South African investors and foreign investors. The systematic relaxation of exchange control continued throughout the decade and this seemed to be a priority of the Department of Finance. Exchange control had to adapt to the changed South African circumstances and the "streamlining" of this control was the cause of much debate between the South African Reserve Bank and leading South African economists. In March 1995 the financial Rand was abolished and this implied that the dual exchange rate system (financial Rand and the commercial Rand) came to an end.

### *2.3.3.3 Exchange rate*

For most of this period (1990 to 1999) the South African currency had depreciated against the major currencies. The decline in the value of the Rand in the early part of the decade was because the socio-political events between 1985 and 1993 affected this country's creditworthiness. Another reason was the high inflation rate as compared with its major trading partners (the inflation gap).The exchange rate was also affected by the fluctuations in the gold price. There was decline in the gold price during the decade. Moreover, exchange rate instability was often accompanied by short-term instability in interest rates.

### 2.3.4 JSE SECURITIES EXCHANGE SOUTH AFRICA (JSE)

The JSE became an integral part of the new political and economic developments. The management soon became aware of the changes taking place in South Africa and in 1992 a research committee was appointed to develop a new structure for the JSE. Consequently the stock exchange which was formerly known as The Johannesburg Stock Exchange had its a name changed during the mid nineteen nineties to JSE Securities Exchange South Africa. Furthermore, comprehensive surveillance procedures were put in place to safeguard investors.

The JSE is considered as one of the major institutions that constitute the investment environment because of the share trading activities and the information that it makes available to investors. The regular statistical market information such as the monthly statistical bulletin enables the investor to make informed investment decisions. The JSE was restructured during the decade to adapt to the new global competitive environment and to keep up with the local political and economic events. Trading on the floor of the JSE stopped on 7 June 1996 and was replaced by an automated trading system called JET, the Johannesburg Equity Trading System. According to the JSE 1996 Annual Report the new system enhanced investor protection through "transparency, security and audit trails". The JET system connects several hundred specific workstations.

In 1998 an electronic and clearing system (STATE) was introduced. STRATE is an acronym for Share Transactions Totally Electronic and allowed share transactions to be settled electronically. These electronic settlements enabled for script to be dematerialised. Dematerialisation as explained by the JSE is "the surrender of paper share certificates in exchange for electronic records of share ownership."

In 1998 several acts of Parliament were introduced to ensure stability at the JSE such as legislation to prevent insider trading. The Insider Trading Act No.135 of 1998 tries to regulate trading on the JSE and came into operation on 17 July 1999. The Financial Services Board which controls or regulates the insider trading acts will ensure compensation to investors who suffered a loss because of insider trading transgressions. The provision to curb insider trading was considered one of the major regulations to protect the investor and is also a major step in the regulation of the South African financial markets.

With the political and economic changes taking place in South Africa some sectors of the JSE benefited more than others did. For instance, the building, construction and engineering have been waiting for the government capital development projects such as housing, roads, bridges and other infrastructural projects. The JSE also provide growth opportunities for investors and capital market infrastructures on which investors can rely. The JSE regulations were also modified at regular intervals in response to the changed circumstances. Finally, the JSE ended the decade with a switch from a paper-base system to an electronic paper-less system.

**All share index ( ALSI )**

The daily performance of the South African stock exchange is indicated by the All Share Index, which is a measure of the overall performance of the stock market index. It is the best-known index and is computed daily and is a broad representative of the investment market. This index is only one of several indicators that are being used. There are also the All Gold and the Industrial Index.

Details of the All Share Index, a three-monthly review are reflected in table 2.2 and graphed in figure 2.1. The graph generally indicates an upward trend. A considerable downward trend is noticeable during the second half of 1998. This was due to an economic recession that South Africa experienced which was in turn brought about by a world recession. And again, this world recession was caused by the Asian economic and financial crises. Stals (1999) describes this phenomenon where unfavourable economic events in one part of the world have an effect on other countries as the "contagion effect." Refer to section 5.8 for more details about the negative effects of economic globalisation. During this period (1998) the South African economic conditions were considered unfavourable because of the drop in share prices. Consumers were further affected by a fall in the value of the Rand, an increase in the prime overdraft rate from 18.25 % to 24 % and an increase in mortgage rates.

## JSE ALL SHARE INDEX

Table 2.2

| Quarterly Periods | Date | All Share | Points Change | Percentage Change |
|---|---|---|---|---|
| | Nov-89 | 2859 | | |
| 1 | Feb-90 | 3084 | 225 | 7.87 |
| 2 | May-90 | 3188 | 104 | 3.37 |
| 3 | Aug-90 | 2993 | -195 | -6.12 |
| 4 | Nov-90 | 2601 | -392 | -13.10 |
| 5 | Feb-91 | 2803 | 202 | 7.77 |
| 6 | May-91 | 3115 | 312 | 11.13 |
| 7 | Aug-91 | 3349 | 234 | 7.51 |
| 8 | Nov-91 | 3542 | 193 | 5.76 |
| 9 | Feb-92 | 3597 | 55 | 1.55 |
| 10 | May-92 | 3732 | 135 | 3.75 |
| 11 | Aug-92 | 3152 | -580 | -15.54 |
| 12 | Nov-92 | 3192 | 40 | 1.27 |
| 13 | Feb-93 | 3418 | 226 | 7.08 |
| 14 | May-93 | 3992 | 574 | 16.79 |
| 15 | Aug-93 | 4034 | 42 | 1.05 |
| 16 | Nov-93 | 4164 | 130 | 3.22 |
| 17 | Feb-94 | 4846 | 682 | 16.38 |
| 18 | May-94 | 5396 | 550 | 11.35 |
| 19 | Aug-94 | 5834 | 438 | 8.12 |
| 20 | Nov-94 | 5756 | -78 | -1.34 |
| 21 | Feb-95 | 5147 | -609 | -10.58 |
| 22 | May-95 | 5471 | 324 | 6.29 |
| 23 | Aug-95 | 5543 | 72 | 1.32 |
| 24 | Nov-95 | 5972 | 429 | 7.74 |
| 25 | Feb-96 | 6705 | 733 | 12.27 |
| 26 | May-96 | 6818 | 113 | 1.69 |
| 27 | Aug-96 | 6689 | -129 | -1.89 |
| 28 | Nov-96 | 6714 | 25 | 0.37 |
| 29 | Feb-97 | 7145 | 431 | 6.42 |
| 30 | May-97 | 7022 | -123 | -1.72 |
| 31 | Aug-97 | 7307 | 285 | 4.06 |
| 32 | Nov-97 | 6326 | -981 | -13.43 |
| 33 | Feb-98 | 7096 | 770 | 12.17 |
| 34 | May-98 | 7630 | 534 | 7.53 |
| 35 | Aug-98 | 4923 | -2707 | -35.48 |
| 36 | Nov-98 | 5621 | 698 | 14.18 |
| 37 | Feb-99 | 5915 | 294 | 5.23 |
| 38 | May-99 | 6489 | 574 | 9.70 |
| 39 | Aug-99 | 6938 | 449 | 6.92 |
| 40 | Nov-99 | 7553 | 615 | 8.86 |
| | | | | |

**SOURCE : Johannesburg Stock Exchange (JSE)**

**Monthly Bulletins from 1989 to 1999.**

### 2.3.5 SOUTH AFRICAN CORPORATE CHANGE

South African business had to adjust to the changed circumstances. This decade saw a re-shaping of business operations. Business communities took advantage of the challenges and opportunities of globalisation. Also, companies changed their operational effectiveness and structures through mergers, alliances, unbundlings and take-overs. Examples include the bank mergers in South Africa to create competition and opportunities. The creation of the ABSA banking group during the early 1990s from four banks i.e. Allied, United, Volkskas and Trust Bank was found to be "business logic". Similarly there were also the mergers between Board of Executors (BOE) with NBS and Boland Bank. Also, the Nedcor Investment Bank was created with the mergers of UAL, Syfrets and Nedbank Investment Bank. These were only a few of the corporate events (using the banking sector) that changed the economic environment of South Africa (Joffe, 2000).

The political changes have already been analysed. Before 1994 there were the constraints such as trade barriers and sanctions which made the South African economy inward looking. South African business became exposed to globalisation after the 1994 general election. With the opening of the world economy to South Africa through globalisation and international business opportunities being available, the pattern changed to outward looking. Business was restructured to take advantage of offshore growth opportunities. For example, some South African companies are also listed on foreign stock exchanges. Another factor affecting the South African business was the process of black empowerment.

### 2.3.6 THE GOVERNMENT BUSINESS AND SOCIETY

During this decade (1990 to 1999) there was an emergence of institutions and processes in which the state, society and business engaged together to make various economic and business decisions. Adler (2000) contends that these were "statuary institutions and formal procedure agreements". He also argues that provision was made for the Bill of Rights in the new Constitution and that great efforts were made to eliminate discriminatory legislation.

The following constitute a brief review of the different social and economic bodies which were created to develop growth and development opportunities:

#### *2.3.6.1 Corporate governance (King report)*

Corporate governance is a system by which corporations (businesses) are directed and controlled. The managing and controlling of corporations during the period 1990 to 1999 did not have a good record. David Sylvester (2001.13) identified the following as reasons for the poor corporate governance in South Africa:

- ***High levels of corruption***
- ***Directors' greed***
- ***Company collapses***
- ***Dubious business practices***

The King Commission was established to reveal corporate governance deficiencies and to suggest improvements in corporate governance. The final report (King Report) on corporate governance advocated a commitment to good corporate governance. It was published in 1994 at the time when social, political and economic transformation was in progress. This report addressed some of the issues raised in the RDP. Furthermore the report was also about corporate democracy. The aim was to increase stakeholder communications, worker participation and affirmative action. It also recommended a code of ethics as part of corporate governance.

In spite of the good intentions of the King Report 1994, the following acts still had to be promulgated because of the lack of compliance to good corporate governance:

- Labour Relations Act No. 66 of 1995
- Basic Conditions of Employment Act No. 75 of 1997
- Employment Equity Act No. 55 of 1998
- Insider Trading Act No. 135 of 1998
- The Public Finance Management Act No. 1 of 1999
- The Banks Act No.94 of 1990 and the Companies Act No.61 of 1973 were changed regularly to accommodate good governance.

These acts were introduced to ensure greater accountability on the part of directors, social responsibility and good social and ethical standards. Generally, companies failed to adhere to good corporate governance. Few of the recommendations of this commission were met and there were numerous reports on corporate violations. In some instances there was disrespect for the interest of the shareholders.

#### *2.3.6.2 The Financial Services Board (FSB)*

The Financial Services Board (FSB) was established as an independent statuary body in October 1990. One of its functions was to exercise control over the activities of financial institutions and financial services. This board also exercised regulatory control over trust depository institutions and security depositories responsible for the safe custody of securities. The Insider Trading Act, which is under this board's control, came into operation in January 1998 to control insider trading and to take criminal action for illegal trading activities.

The Inspection of Financial Institutions Act was introduced in October 1998 to give the Financial Services Board greater policing powers over the financial services industry. The powers given to the Financial Services Board were to protect the investors from financial abuse and corruption. Furthermore the board also liaises with the police, the Office for Serious Offenders, the commercial branch of the South African police, auditors, the Business Practices Committee and many other organisations and committees.

#### *2.3.6.3 Other business and government efforts*

For purposes of this thesis the below-mentioned innovative development efforts will not be discussed in detail; however it should be stated that they were all attempts to stimulate the economy and to ensure social and economic upliftment. Multi-interest negotiating forums emerged during the 1990s which were creative efforts to improve all areas of social and business life. They were structured forums with the aim of building consensus on various political and economic issues. In many instances they were consultative processes between the government, business and society.

- **Reconstruction and development programme (RDP) 1994**

The Reconstruction and Development Programme was a government socio-economic policy framework, which attempted to create “total society well-being". The approach was to achieve economic progress, meet basic needs, develop this country's human resources and to democratise the state and society. The Masakhane campaign was also launched in 1995 to facilitate the implementation of the RDP. At the end of the decade the RDP became marginalised. It is beyond the scope of this thesis to discuss the reasons for this maginalisation.

- **Growth, employment and redistribution (GEAR) 1996**

The aim was to expand the economy in an effort to create employment and this Forum favoured capital being invested in South Africa to stimulate the economy. One of the important objectives was to get the government to create tax incentives that would stimulate new local and foreign investments. Finally, this Forum advocated an anti-inflationary monetary policy.

- **National economic forum (NEF) 1992**

This was a formal institutionalised economic forum with the aim of seeing to the economic and social development during the transition period. It was also to assist in formulating a wide range of state economic policies. This was not a collective bargaining body, but would concentrate on economic growth and efforts to eliminate those factors that inhibited economic growth.

- **National economic development and labour council (NEDLAC) 1995**

This was a combined effort of the government, business, and labour and community organisations to be creative and establish a consensus-seeking forum. It was a form of collective bargaining as well as being a consultative economic and social policy-making forum. The major concern of this body was economic growth that would create employment opportunities. The focus was on economic growth and social upliftment and it was to assist with economic policy formulation before it was introduced to Parliament.

To conclude this section on the economic environment one could argue that the post-apartheid South Africa brought many challenging changes and the government, business and socio-political forums tried to regulate or monitor these changes. Wesso (2001) remarked that the political developments paved the way for the re-introduction of the South African economy to world economy, and for the awakening of new interest in its economic potential. In order for investors to be successful they have to relate to the environment. It was important for investors to understand the environment in order to apply their investment strategies. Economic reform was necessary to create wealth. South Africa had "survived extreme economic punishment" in the late 1980s (Stuart and Moore 1988) and in the early 1990s and ended the decade with economic hope (Stuart, 1994). There was a renewal of global economic interest in South Africa. i.e. sanctions were lifted and therefore investment prospects looked promising. An improvement in South Africa's international standing gave further hope for economic prosperity.

## 2.4 CONCLUSION

This chapter highlighted the political and economic opportunities and challenges that were facing the investor. Moreover, political economists believed that all economic activity takes place within the political context (Crase and Dollery 1999). The investment environment was a mixture of the good (stable economy and reduced inflation) and the not so good (crime, violence and corruption). The early nineties were characterised by political uncertainties and disorderly conditions due to the social unrest. At the end of 1999 the economic and political transformation was not yet complete because the economy needed some restructuring and the democracy was in need of consolidation.

The graph on the next page figure 2.1 is a combination of socio-political and economic and commercial events and it shows the market highs, lows and market drops. The results show that there was an overall positive correlation or relationship between the changes in the political and economic set-up and the investment performance on the stock market. The rising stockmarket index reflects not only the actual increase in corporate profits, but also the reasonable expectations that profit growth will continue. Notwithstanding the investment uncertainty there was an encouraging response from the South African stock market to the political and economic changes. It also shows the strength of the stock market because there was positive stock market activity in spite of the changes. The stock market trend indicates an acceptance of the changes.

In concluding this chapter it would be apt to refer to what Esterhuyse (1996a :1) had to say about change. He stated that change should be:

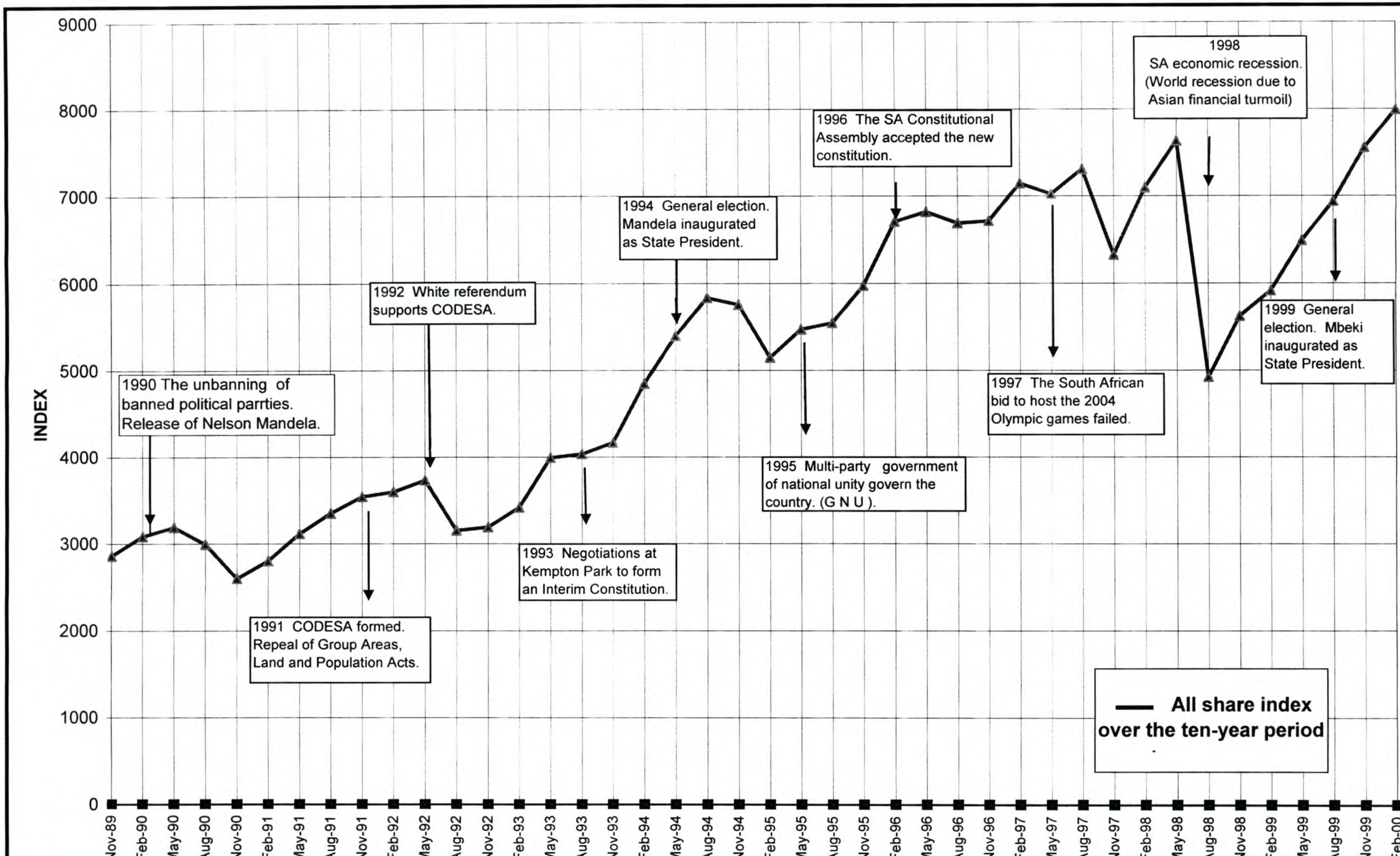
- **Anticipated** • **Initiated** • **Managed** • **and Understood.**

With the above being said about change it is important to examine in the next chapter how it influenced the investment process in South Africa. Finally, the challenge that was brought about by the change was translated into investment opportunities.

◄╬╬╬╬╬►

Figure 2.1

## ALL SHARE INDEX AND THE SOCIO-POLITICAL EVENTS




Source: Harris S.E. 2000.

# CHAPTER 3

# THE INVESTMENT DECISION ANALYSIS

## (PROCESS AND STRATEGY)

**Survival and growth require a clear strategic vision and intent and the ability to transform this intent now and in the future into effective actions.**

**Kotzé J.G.** ***Get to Grips With Strategy***

## 3.1 INTRODUCTION

The previous chapter briefly analysed the investment environment in which the South African investors found themselves. This chapter will examine the individual investor's circumstances that determined the investment process. Also, to assess the prejudices and fears, which dominated the investment strategy. Huagn is of the opinion that the investor's current financial status and prospective financial needs are important factors in deciding on an investment programme. In the South African context the individual circumstances such as age, occupation and the size of the funds were balanced against the political and economic factors such as inflation, fiscal and monetary policies of the country.

The objective of this chapter is to determine how the investors cope with managing their investment portfolios. Emphasis will be placed on the following:

- Considering the composition of the portfolio
- Identifying the factors which affected the investment performance
- Reviewing the investment performance for the period
- Considering the investment strategies that were applied
- Considering the knowledge and skills required to effectively manage the portfolio.

The investment allocation and the risk associated with each investment determined the effectiveness in managing the portfolio. This would imply that asset allocation decisions were based on the relevant risk associated with such allocations.

Finally, the investment possibilities in South Africa will be analysed with particular emphasis on the investment threats, weaknesses, opportunities, and advantages. Cohen et al (1987:19) state that ***"the art of investment is a comprehensive set of procedures which involves knowledge of theory and of the practical use of tools of analysis applied to investment possibility".***

## 3.2 INVESTMENT BREAKDOWN ANALYSIS

In this section an analysis is made of the composition of the portfolio. The objective is to evaluate the portfolio composition throughout the period. In particular to assess the exposure of the investment composition and strategy to the changes that was taking place in South Africa.

### 3.2.1 *METHODOLOGY*

The information obtained was financially sensitive therefore permission had to be sought to research confidential investor information. Furthermore, research of this sort had to ensure that there was no breach with regard to confidentiality agreements. A random sample of 200 investing clients was selected with investments during the period 1990 to 1999. The market values were compared on a six-monthly basis starting with 1990 through to 1999. The selection procedure for the random sample was that firstly, they should have had investments at the beginning of 1990 and secondly they should also have had investments for an unbroken period up to 1999. Appendix A is an example of how the 200 portfolios were analysed into quoted investments, unquoted investments excluding cash investments and then cash investments. The results were recorded on appendices B, C and D.

The first stage of the data analysis consists of comparing the percentages invested in quoted investments, unquoted investments excluding call deposits and cash deposits for each investor on a six-monthly basis. The next step was to determine the amounts invested in the respective categories (quoted, unquoted and cash) and then express each category as a percentage of the total portfolio. These individual percentages were summarised and statistically analysed.

### 3.2.2 INVESTMENT BREAKDOWN RESULTS

Table 3.1 summarises the three investment allocation criteria. This investment allocation trend of quoted investments, unquoted investments and cash investments will be analysed separately. Figures 3.1, 3.2 and 3.3 on page 42 graphically represent the three investment criteria.

**Table 3.1**

| Investment allocation summary | | | | |
|---|---|---|---|---|
| | | | | |
| Period | Quoted Investments % | Unquoted Investments % | Cash Investments % | Total Should be 100% |
| May-90 | 75.00 | 17.34 | 7.66 | 100.00 |
| Nov-90 | 71.41 | 17.91 | 10.68 | 100.00 |
| May-91 | 73.71 | 16.71 | 9.58 | 100.00 |
| Nov-91 | 76.40 | 16.47 | 7.13 | 100.00 |
| May-92 | 77.09 | 16.10 | 6.81 | 100.00 |
| Nov-92 | 72.01 | 17.85 | 10.14 | 100.00 |
| May-93 | 71.72 | 17.56 | 10.72 | 100.00 |
| Nov-93 | 71.05 | 18.90 | 10.05 | 100.00 |
| May-94 | 73.92 | 17.59 | 8.49 | 100.00 |
| Nov-94 | 75.94 | 16.06 | 8.00 | 100.00 |
| May-95 | 76.41 | 15.42 | 8.17 | 100.00 |
| Nov-95 | 76.40 | 15.64 | 7.96 | 100.00 |
| May-96 | 78.15 | 14.34 | 7.51 | 100.00 |
| Nov-96 | 76.17 | 14.26 | 9.57 | 100.00 |
| May-97 | 78.30 | 13.25 | 8.45 | 100.00 |
| Nov-97 | 76.42 | 13.60 | 9.98 | 100.00 |
| May-98 | 75.64 | 12.50 | 11.86 | 100.00 |
| Nov-98 | 71.17 | 16.31 | 12.52 | 100.00 |
| May-99 | 66.70 | 18.36 | 14.94 | 100.00 |
| Nov-99 | 66.93 | 17.77 | 15.30 | 100.00 |
| | | | | |
| **Mean** | **74.03** | **16.20** | **9.77** | **100.00** |
| | | | | |
| **Standard deviation** | **3.38** | **1.82** | **2.39** | |
| | | | | |
| **Lower quartile** | **71.64** | **15.15** | **7.99** | |
| | | | | |
| **Upper quartile** | **76.40** | **17.64** | **10.69** | |
| | | | | |

**Refer to appendices B, C, and D.**
**appendix B page 113**
**appendix C page 119**
**appendix D page 125**

#### 3.2.2.1 *Quoted investments*

There were a variety of quoted investments on the market. The most common quoted investments included in this section are: ordinary shares (example: Sasol, Absa), government stock (RSA R153), semi-gilts (Eskom E168) unit trusts (Syfrets Growth Fund), debentures and preference shares.

Table 3.1 indicates a mean allocation of 74.03 percent, which is an indication that quoted investments were a favourite type of investment. From the investment percentages and trends as indicated by Figure 3.1 it is evident that the focus was on quoted equities. It is also noteworthy that most investors preferred a high percentage of quoted investments as part of their portfolio structure. This type of asset allocation is also relevant to the next section where the performance of the investors and the performance of the JSE all share index are compared. The preference for quoted investments was consistently applied as indicated by the graph.

The tradability of quoted investments was one of the reasons why such a large percentage of the investments allocated were from the stock market. These investments can generally be bought and sold with relative ease on the stock market. Moreover, this type of investment was accepted and understood by the investors and had the highest rate of return of the three investment classes that were studied. On the other hand this investment strategy was subject to a substantial degree of risk because of the volatility of the share market.

The JSE was reconstructed in such a way that it could respond to major political and economic trends and events. Furthermore the share market was growing in diversity because new investment products were constantly being added. Also, the JSE proved to be a stable investment medium which gave the investors confidence in investing on the stock exchange and in quoted investments. This was in spite of the share market volatility that they had to contend with.

The graph at the end of chapter two (page 37) indicates that there was constant growth in share values. In addition to the value growth, there was also an increase in dividend payments and this was a good reason why the investors preferred quoted investments and the stock exchange as an investment medium.

Figure 3.1

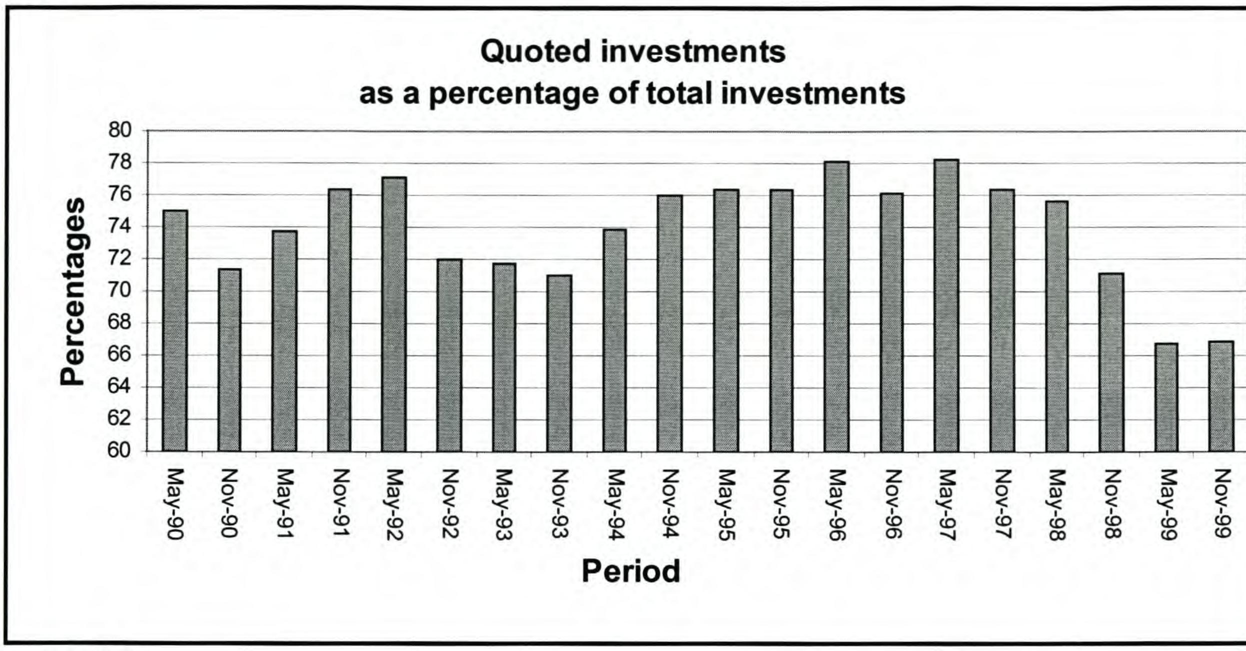



Figure 3.2

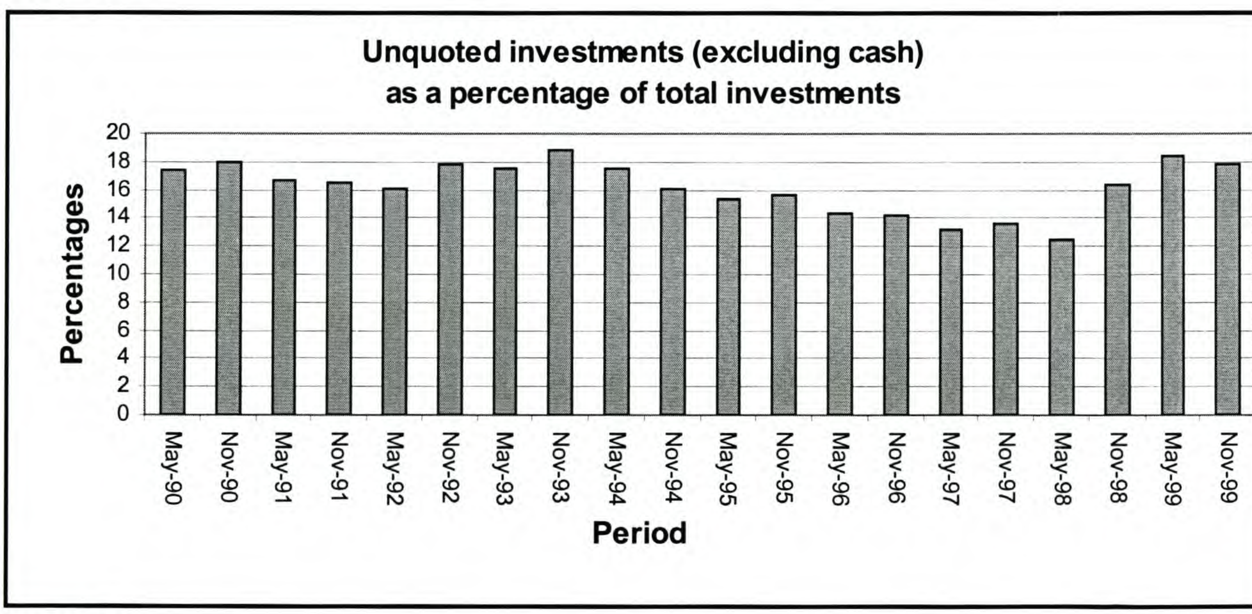
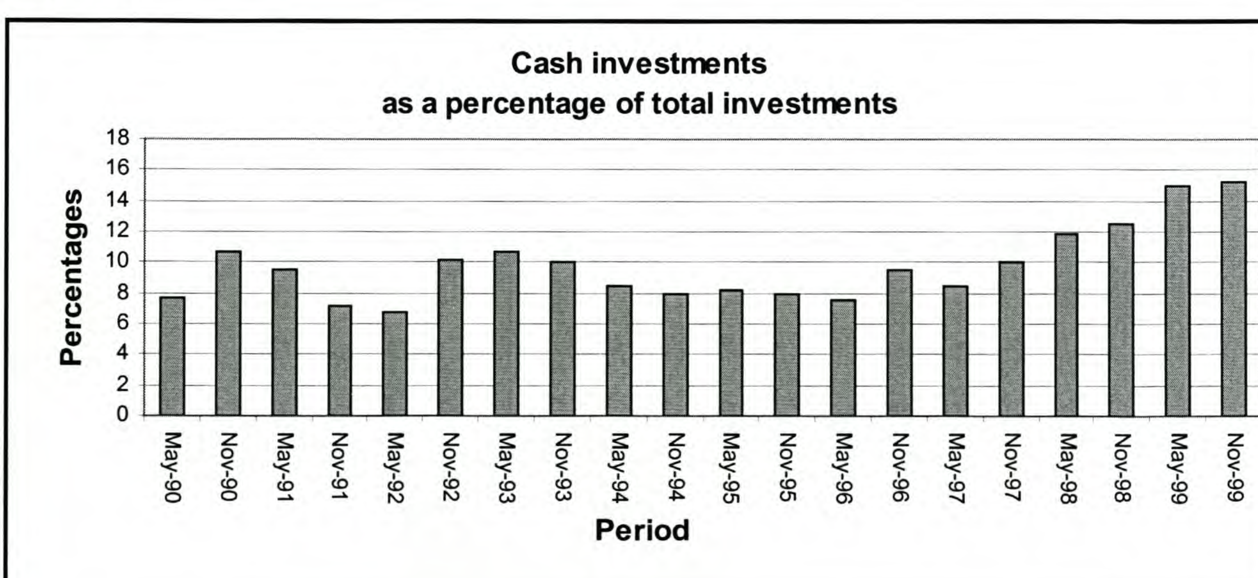



Figure 3.3



#### *3.2.2.2 Unquoted investments*

The following investments were included in the category: unquoted ordinary shares, preference shares, debentures and semi-gilts. Also investments in participation mortgage bonds, properties and even insurance policies were included in this section.

In contrast to quoted investments, unquoted investments did not carry the confidence of investors. Table 3.1 indicates a mean asset allocation of 16.20 percent. One of the reasons for this low percentage is that this type of investment is less tradable than quoted investments. It should be noted in particular from figure 3.2 that these investments peaked slightly at the end of the decade.

#### *3.2.2.3 Cash investments*

Cash investments included some of the following: term deposits, fixed deposits, savings accounts, call deposits and cash on hand.

Table 3.1 indicates an average allocation of 9.77 percent, which is an indication that some investors held cash balances as a precautionary store of wealth. Moreover, they selected cash balances because they felt more comfortable with this type of asset. Cash had the advantage of being the most liquid of all assets, which meant that it could quickly be converted into another form of asset. This was to the advantage to the investors because they could easily take advantage of unexpected opportunities that might have arisen. Therefore individuals will always include cash balances as part of their assets in a portfolio because cash can be easily used for speculative purposes.

The bar chart figure 3.3 indicates that there was an increased demand for cash towards the end of the decade. The reasons given were that investors kept cash to protect themselves against possible computer systems failures during the year's 1999 to 2000 changeover. Another reason could be that the more conservative investors wanted to reduce the risk of the portfolio by increasing their cash holdings. At times of uncertainty as at the end of 1999 the investors tried to eliminate equity exposure by holding on to cash. On the other hand there were non-banked cash holdings of investors for financial emergencies. It was reported by The South African Reserve Bank that the cash holdings were high during the 1999 to 2000 transition (Wesso 2001).

The graph also reveals that the build-up to cash featured prominently at the end of the decade (figures 3.3 and 3.4). Finally, investors reduced their cash holdings during January 2000 because the South African financial institutions computer systems were in place for this event (Mamba and van den Heever, 2000).

The holding of cash balances as a precautionary store of wealth was closely linked to the degree of risk and the rate of return. Cash options such as call deposits, term deposits and fixed deposits offer a useful alternative to equities in times of uncertainty and can also be used as a store of funds pending investment in other assets. On the negative side, according to Small (1998), the eventual purchasing power of cash will decline because it is eroded by inflation. Therefore cash holdings as indicated by figure 3.3 and figure 3.4 were the lowest of the three categories of investment types. What is also notable from the chart is that the percentage of cash in relation to the total investments remained reasonably constant.

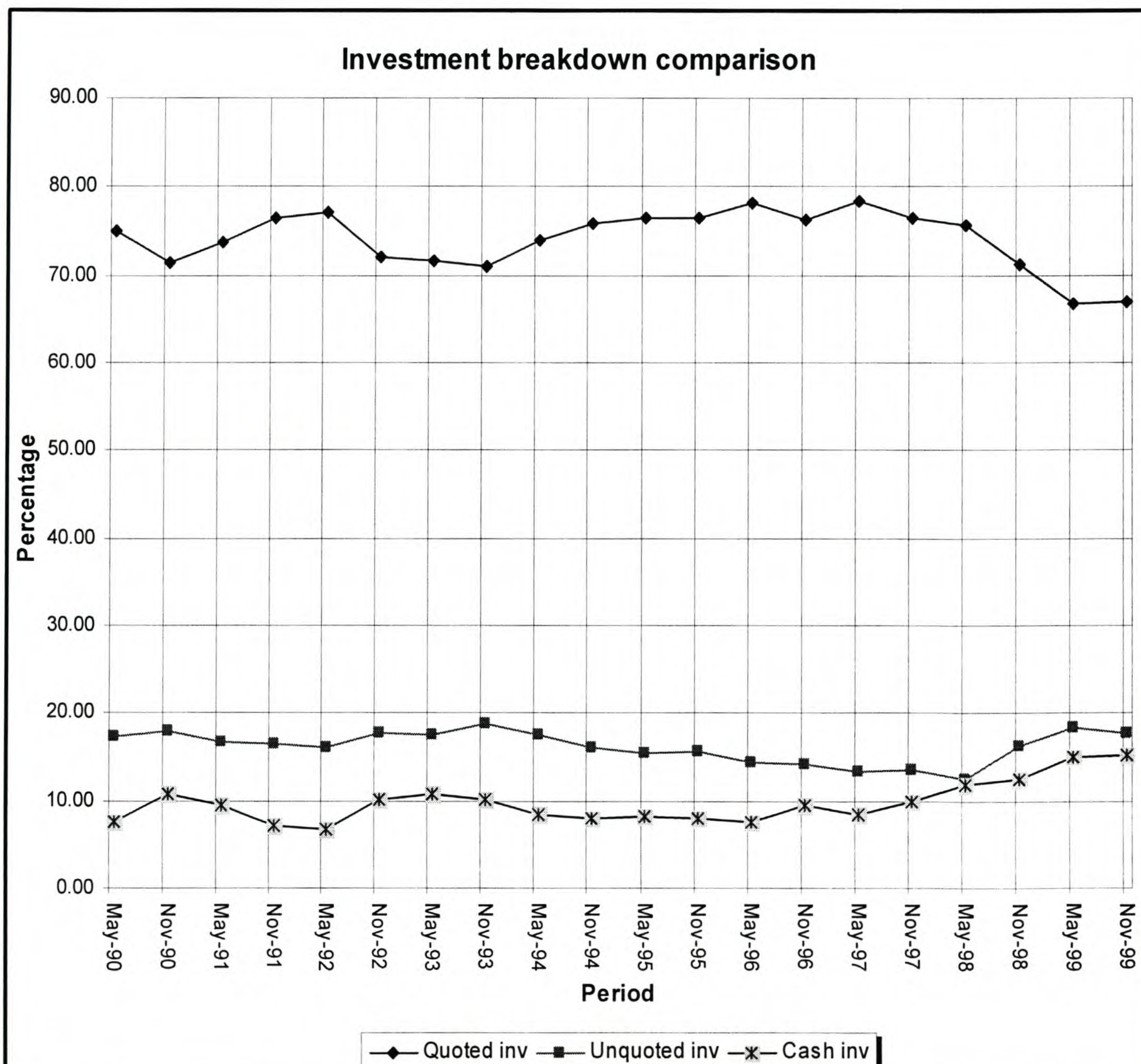
### *3.2.3 INVESTMENT BREAKDOWN COMPARRISON AND ANALYSIS*

This section looks at the relationship between the three types of investment categories in order to gain further insight into the investment trends or preferences. For ease of comparison, the three criteria: quoted investments, unquoted investments and cash investments are compared graphically. From graph 3.4 it can be seen that investors were consistent in their selection of the respective type of investments.

The effectiveness of the strategy can also be gauged by noting that there was a strong demand for quoted investments and there was also a move away from unquoted investments. Also, the multiple line graphs highlight that there was confidence in investing in quoted investments. This is supported by the returns that these investments rendered. Investors tend to move away from cash deposits into other assets because the alternative investments have more attractive yields, such as equities. Notwithstanding this strategy, Small (1998) argues that investors cannot completely eliminate cash holdings from their investment portfolio because they need cash in times of emergencies and urgent profitable share purchases. Similarly, Firer et al (1992) maintain that investors retained a portion of their portfolios in cash to maintain a degree of liquidity and also to reduce the risk profile of their investments.

Many found that investing in only one type of investment (for example only quoted investments) may be too risky. That is why there is a reasonably constant spread between the three investment types as indicated in figure 3.4. The graph indicates that there was a decrease in quoted investments and an increase in unquoted investments and cash during 1998 and 1999. The reason for this was the investment precaution taken for the year 1999 to 2000 changeovers. Investors preferred cash because they feared possible computer problems with the stock exchange and the financial institutions.

**Figure 3.4**



The overall position as reflected in figure 3.4 shows a reasonably consistent investment pattern. The analysis shows that the difference is almost the same for the three investment categories throughout the decade. Furthermore, the breakdown suggests confidence in the stock market. Figure 3.4 also indicates investment persistence because the ratio of quoted, unquoted and cash investments remained reasonably constant throughout the period. The changes in 1998 and 1999 were due to a unique situation. It was the impending year 1999 to year 2000 transition with possible computer problems. Investors' fear or caution can be seen by the downward slope of quoted investments and the upward tendency of unquoted investments and cash holdings. This unusual phenomenon is also referred to in section 3.10.2 (page 63) where the investors' fears and perceptions are discussed. There seems to be a correlation between the investment caution or fear and the investment selection strategy that was applied during the last few months of the decade. The general conclusion drawn from this analysis is that investors always made cash available for speculative purposes and there was some consistency in the amount of cash that was available as part of the portfolio.

Finally, judging from the way in which the percentages of the three categories are spread, it is noteworthy that there was confidence in the returns of quoted investments. A salient feature of the investment allocation or preference is that the graphs remained reasonably constant throughout the period. Table 3.1 indicates the mean, standard deviation and the lower and upper quartile ranges, which is an indication of the spread of the three investment categories.

## 3.3 PORTFOLIO PERFORMANCE ANALYSIS

The focus of this section is to gauge the investment performance against the political and economic events of the decade under review. The research plan will reflect on the profitability or loss of the investments, which is an indication of how the investors coped with managing their assets. To make this performance analysis meaningful it will be compared with the overall performance of the JSE all-share index which was used as a benchmark. According to Henn and Smit (1997) the investors will always try to outperform the share market. The authors also argue that the share prices or share market movements are a direct result of economic activity.

### 3.3.1 METHODOLOGY

To assess the investment performance for the period, 100 investment portfolios were randomly selected from the 200 investors that were used to assess the portfolio allocation strategy in the previous section (3.2). The investment performances were analysed as indicated in appendix E which is an example of how the performances were calculated. In order to arrive at a performance figure certain preliminary calculations had to be done. The cashflows i.e. fees, distributions and contributions during a six-month period needed to be adjusted before the performance percentage or amount could be calculated.

***The following calculation is an example:***

**Calculation**

Refer to appendix E for the period May 1991 to November 1991.

| | R |
|---|---|
| November 1991 market value | 1,321,431 |
| Add fees | 4,149 |
| Add distributions | 24,392 |
| Less contributions | -101,600 |
| Adjusted November 1991 market value | 1,248,372 |
| | |
| November 1991 balance as above | 1,248,372 |
| May 1991 market value | 1,156,825 |
| Percentage change | 7.91 % |

The percentage for each six-monthly period was recorded on appendix F and the "mean" figures on page 131 were transferred to table 3.2 and compared with the performance of the JSE all-share index. This analysis evaluates the performance of the portfolio over the research period. These individual performances are again consolidated and statistically analysed and also presented as graphs.

### *3.3.2 INVESTMENT PERFORMANCE RESULTS*

The results of the investor's performance (appendix F page 131) and the all-share performance are summarised on table 3.2 below. The results are analysed in two stages; firstly by referring to the six-monthly performance review, figure 3.5 and secondly by assessing the ten-year cumulative results, figure 3.6. For the six-monthly review columns A and D are compared on table 3.2 and for a ten-year cumulative review columns B and E are compared.

**Table 3.2**

| | | | | | |
|---|---|---|---|---|---|
| | **Performance comparison** | | | | |
| | **of the selected investors and the all share index** | | | | |
| | **INVESTORS** | | **J S E ALL SHARE INDEX** | | |
| | % | % | | % | % |
| **Date** | **Portfolio Performance** | **Cumulative Performance** | **All Share** | **All share Performance** | **Cumulative Performance** |
| | **A** | **B** | **C** | **D** | **E** |
| **Nov-89** | | | 2859 | | |
| **May-90** | 12.70 | 12.70 | 3188 | 11.51 | 11.51 |
| **Nov-90** | -8.69 | 4.01 | 2601 | -18.41 | -6.90 |
| **May-91** | 20.91 | 24.92 | 3115 | 19.76 | 12.86 |
| **Nov-91** | 14.33 | 39.25 | 3542 | 13.71 | 26.57 |
| **May-92** | 6.36 | 45.61 | 3732 | 5.36 | 31.93 |
| **Nov-92** | -8.88 | 36.73 | 3192 | -14.47 | 17.46 |
| **May-93** | 15.25 | 51.98 | 3992 | 25.06 | 42.52 |
| **Nov-93** | 6.26 | 58.24 | 4164 | 4.31 | 46.83 |
| **May-94** | 20.98 | 79.22 | 5396 | 29.59 | 76.42 |
| **Nov-94** | 6.98 | 86.20 | 5756 | 6.67 | 83.09 |
| **May-95** | -0.44 | 85.76 | 5471 | -4.95 | 78.14 |
| **Nov-95** | 9.97 | 95.73 | 5972 | 9.16 | 87.30 |
| **May-96** | 11.85 | 107.58 | 6818 | 14.17 | 101.46 |
| **Nov-96** | 2.58 | 110.16 | 6714 | -1.53 | 99.94 |
| **May-97** | 11.76 | 121.92 | 7022 | 4.59 | 104.53 |
| **Nov-97** | -5.02 | 116.90 | 6326 | -9.91 | 94.61 |
| **May-98** | 14.27 | 131.17 | 7630 | 20.61 | 115.23 |
| **Nov-98** | -16.13 | 115.04 | 5621 | -26.33 | 88.90 |
| **May-99** | 17.87 | 132.91 | 6489 | 15.44 | 104.34 |
| **Nov-99** | 12.75 | 145.66 | 7553 | 16.40 | 120.74 |
| **Mean** | **7.28** | | | **6.04** | |
| **Std dev** | **10.40** | | | **14.84** | |
| **Lower quartile** | **1.83** | | | **-2.38** | |
| **Upper quartile** | **14.29** | | | **15.68** | |

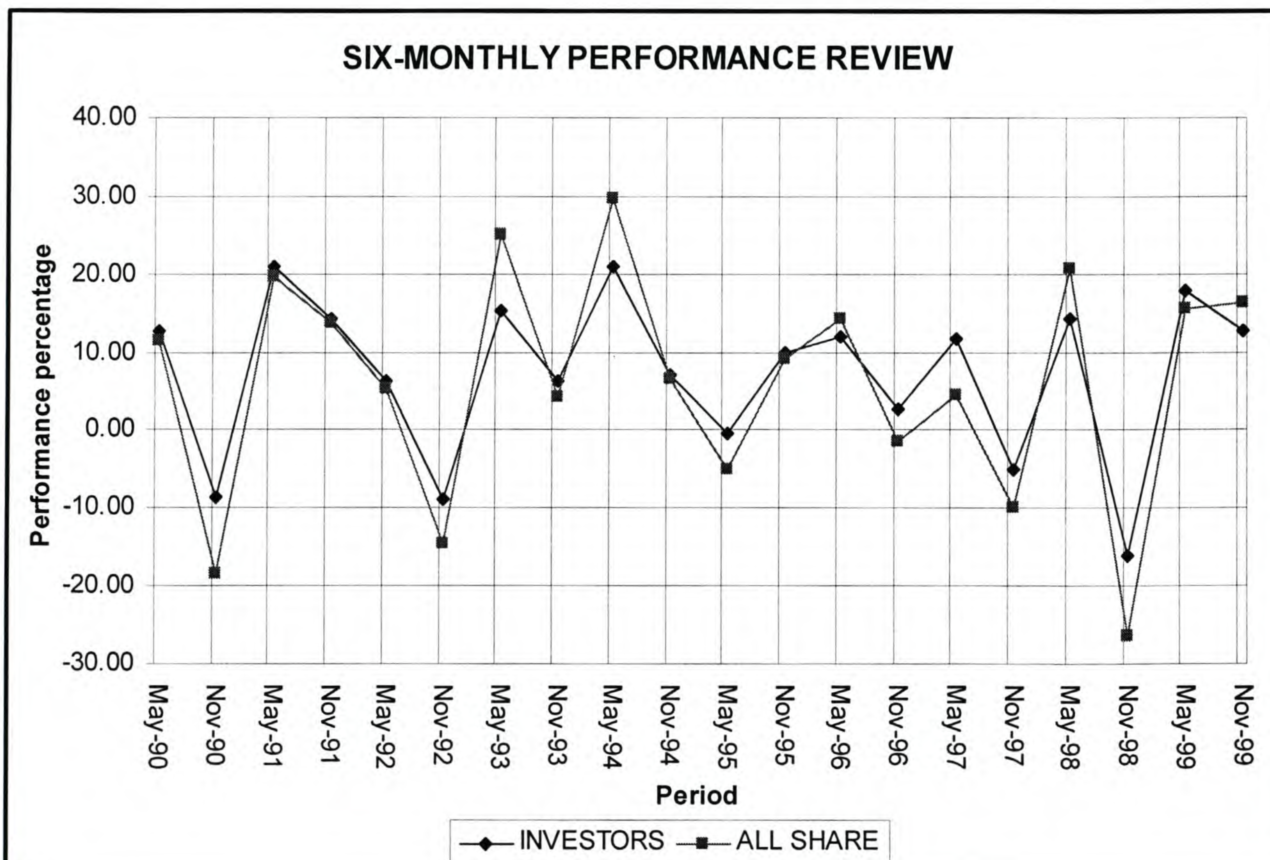
▲ ▲

**(Refer to appendix F page 131)** **(Refer to appendix E page 127)**

#### *3.3.2.1 Six-monthly performance analysis*

Figure 3.5 is a six-monthly comparison and represents columns A and D in table 3.2. Certain salient conclusions can be drawn from the graph. It provides an indication of the performance over the ten-year period and also gives an indication of the performance fluctuations. Stock market volatility is evident from the figures presented because there are some notable gains as well as losses. But, the overall positions are gains. Refer to figure 3.6 and table 3.2 for the cumulative (gain) position.

**Figure 3.5**

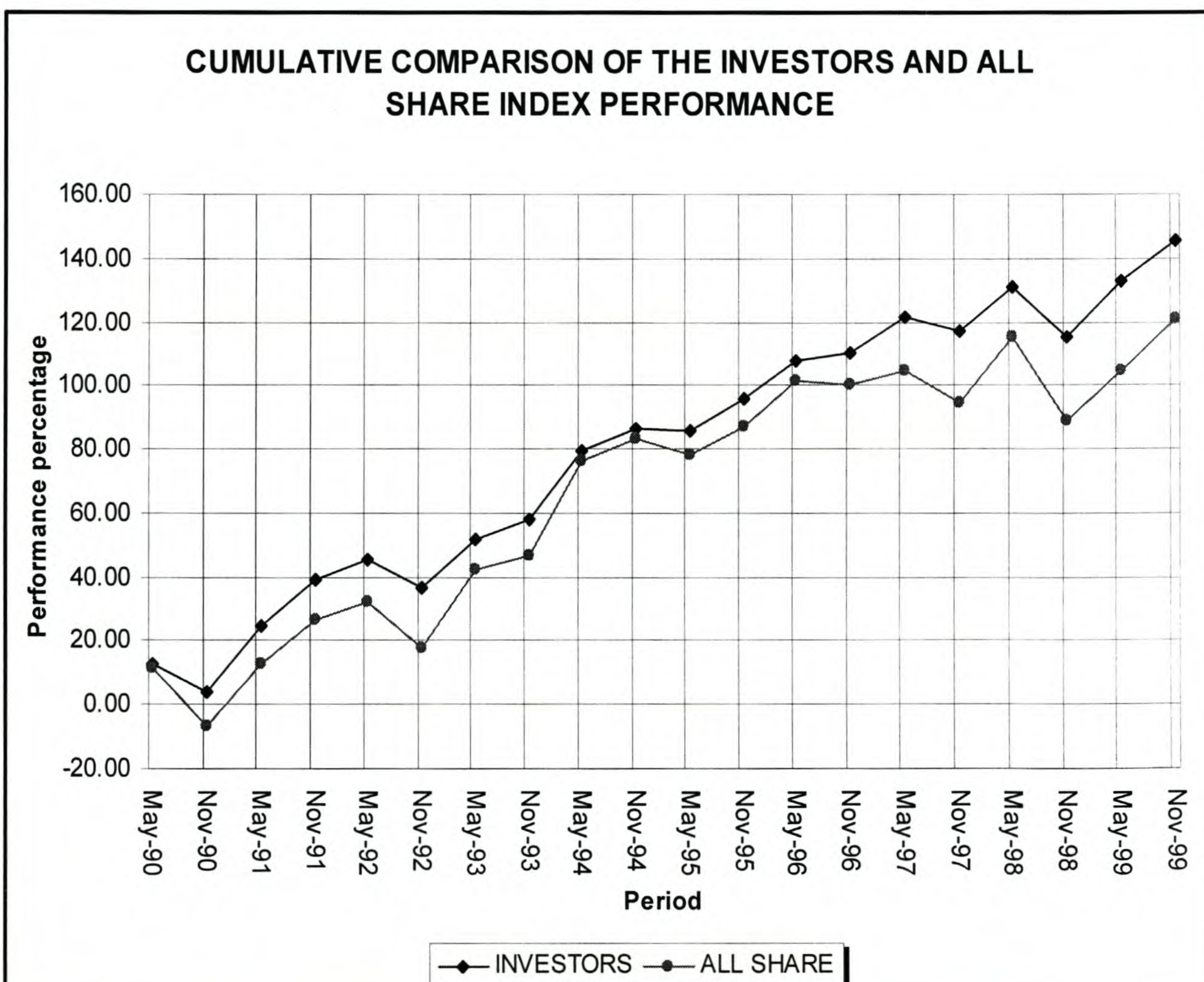



The investors were reasonably successful in outperforming the all-share index and notwithstanding the prejudices and fears the investors managed to perform well. The results show that there is a positive relationship between political stability, economic growth and the share prices. The highest performance was in May 1994 (20.98 % for the investors and 29.59 % for the all share index) and the lowest in November 1998 (minus 16.13 % for the investors and minus 26.33 % for the all share index). The reasons for this situation were explained in chapter two. In 1994 South Africa experienced a successful general election and in 1998 there was a world recession which affected South Africa negatively. The events of 1994 and 1998 are reflected in the investment performances. The trend indicates investment successes and investment failures. The overall mean is a positive 7.28 % for the investors over the ten-year period. There were periods of underperformance but in the long-term investors felt confident that the end result was positive. However, there will always be periods of underperformance.

#### *3.3.2.2 Cumulative performance comparison*

Figure 3.6 represents columns B and E in table 3.2. An increase in the profitability (or otherwise) of the stock market is accompanied by a corresponding increase in the profitability of the investors. It is notable that the performance trend is upwards.

**Figure 3.6**



# Appendix F

## ANALYSIS OF THE PORTFOLIO PERFORMANCES



## (PERCENTAGES)

| Investor Number | May-90 | Nov-90 | May-91 | Nov-91 | May-92 | Nov-92 | May-93 | Nov-93 | May-94 | Nov-94 | May-95 | Nov-95 | May-96 | Nov-96 | May-97 | Nov-97 | May-98 | Nov-98 | May-99 | Nov-99 | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 79 | 10.74 | -19.03 | 24.68 | 15.64 | 10.72 | -3.68 | 6.62 | 5.52 | 5.79 | -0.37 | 6.51 | 8.98 | 5.55 | 6.57 | 23.95 | 5.00 | 11.61 | -14.06 | 20.12 | 7.31 | **6.91** | **10.76** |
| 80 | 20.84 | -15.85 | 30.99 | 20.80 | 9.37 | -7.73 | 18.52 | 7.01 | 24.03 | 2.42 | -0.60 | 8.20 | 13.00 | 2.20 | 7.31 | -5.63 | 16.69 | -25.23 | 19.08 | 22.84 | **8.41** | **14.35** |
| 81 | 0.43 | 0.26 | 11.02 | 2.19 | -4.15 | -7.66 | 2.78 | 0.79 | 16.77 | 7.70 | -1.99 | 11.93 | 15.91 | 0.95 | 6.26 | -10.78 | 12.50 | 0.52 | 18.21 | 10.75 | **4.72** | **8.16** |
| 82 | 9.38 | 0.92 | 13.47 | 1.09 | -9.59 | -12.59 | 0.14 | 4.28 | 18.29 | 5.28 | -2.97 | 15.57 | 16.47 | 0.37 | 8.48 | -10.50 | 13.05 | -14.42 | 21.28 | 23.33 | **5.07** | **11.40** |
| 83 | 15.00 | -13.56 | 13.16 | 2.57 | 7.68 | -3.32 | -10.70 | 7.68 | 19.62 | 7.84 | 2.26 | 14.06 | 7.68 | 5.94 | 24.06 | -6.75 | 10.04 | -13.56 | 12.68 | 11.36 | **5.69** | **10.58** |
| 84 | 12.89 | 5.75 | 20.78 | 7.27 | 2.27 | -4.70 | 18.83 | 7.63 | 29.29 | 15.84 | 8.52 | 10.93 | 13.42 | 2.34 | 6.23 | 4.17 | 9.13 | -19.33 | -8.07 | 7.43 | **7.53** | **10.54** |
| 85 | 7.51 | 8.74 | -7.22 | 9.71 | 0.11 | 2.26 | 3.52 | 2.06 | 3.41 | 2.55 | 4.04 | 2.37 | 4.78 | 0.25 | 9.62 | 5.51 | 5.34 | 4.89 | 12.82 | 3.43 | **4.29** | **4.28** |
| 86 | 15.20 | -10.70 | 29.63 | 13.48 | 7.57 | -9.87 | 21.13 | 4.20 | 25.07 | 11.09 | 1.68 | 14.08 | 15.34 | 6.13 | 9.04 | -2.95 | 19.27 | -26.90 | 20.02 | 19.49 | **9.10** | **13.69** |
| 87 | 4.70 | -5.85 | 17.89 | 10.43 | 11.40 | -5.92 | 9.71 | 30.92 | 10.30 | 1.51 | -0.20 | 13.44 | 5.57 | 1.02 | 9.50 | -4.89 | 9.40 | -18.10 | 16.38 | 16.34 | **6.68** | **10.75** |
| 88 | 3.05 | -0.99 | 24.11 | 19.00 | 13.70 | -12.85 | 12.73 | 2.67 | 25.93 | 2.04 | -5.05 | 7.19 | 11.84 | 10.05 | 21.90 | -6.69 | 18.07 | -18.47 | 15.14 | 10.76 | **7.71** | **12.18** |
| 89 | 9.13 | -7.73 | 19.97 | 9.81 | 7.88 | -4.29 | 15.82 | 4.22 | 18.04 | 4.62 | -0.53 | 8.10 | 11.09 | 4.03 | 12.34 | -6.92 | 19.46 | -18.90 | 18.92 | 16.77 | **7.09** | **10.53** |
| 90 | 16.08 | -4.09 | 16.32 | 9.52 | 6.00 | -8.94 | 23.50 | 5.34 | 6.26 | 14.69 | 4.55 | 18.27 | 15.25 | 3.57 | 10.79 | 3.32 | 18.24 | -24.34 | 7.94 | 5.46 | **7.39** | **10.85** |
| 91 | 8.14 | -0.92 | 20.64 | 7.93 | 7.92 | -8.58 | 14.96 | 5.13 | 28.11 | -4.74 | -1.83 | 8.34 | 15.11 | -4.06 | 16.18 | 1.00 | 7.43 | -6.22 | 26.10 | 13.47 | **7.71** | **10.52** |
| 92 | 12.95 | -15.91 | 21.61 | -4.31 | 2.22 | -17.94 | 30.62 | 6.51 | 13.21 | 6.25 | -4.94 | 19.88 | 15.41 | 5.16 | 6.24 | 3.18 | 12.89 | -25.15 | 28.14 | 6.22 | **6.11** | **14.58** |
| 93 | 7.44 | -10.13 | 32.27 | 22.59 | 10.91 | -10.82 | 5.35 | -11.56 | 35.03 | 6.47 | -4.98 | 3.00 | 2.91 | -7.38 | -2.50 | -14.00 | 11.19 | -24.05 | 15.37 | 9.67 | **3.84** | **15.24** |
| 94 | 14.78 | -14.09 | 28.71 | 18.83 | 5.29 | -13.39 | 21.94 | 5.41 | 27.72 | 13.67 | 0.38 | 10.89 | 14.53 | -1.59 | 9.54 | -2.39 | 13.07 | -25.33 | 21.29 | 11.77 | **8.05** | **14.15** |
| 95 | 9.70 | -1.83 | 21.84 | 6.70 | 5.02 | -12.31 | 19.68 | 14.17 | 3.40 | 20.26 | 7.88 | 12.87 | 0.05 | 15.24 | 4.38 | 5.28 | 15.89 | -25.62 | 25.30 | 12.66 | **8.03** | **11.99** |
| 96 | 8.88 | -4.87 | 13.43 | 9.07 | 3.24 | -8.97 | 16.67 | 5.78 | 17.44 | 12.31 | 3.12 | 9.16 | 3.63 | -5.57 | 27.61 | 2.52 | 0.37 | -25.54 | 29.05 | 9.70 | **6.35** | **12.38** |
| 97 | 14.65 | -15.87 | 22.63 | 19.56 | 4.85 | -13.89 | 23.07 | 3.16 | 10.97 | 10.17 | -0.98 | 9.47 | 23.63 | 4.84 | 0.62 | -11.60 | 13.82 | -21.52 | 15.53 | 15.61 | **6.44** | **13.50** |
| 98 | 3.39 | 1.93 | 10.88 | 2.92 | 2.20 | 0.30 | 11.86 | 4.80 | 10.22 | 9.80 | 1.26 | 10.08 | 11.02 | 2.56 | 13.50 | -2.17 | 0.03 | 18.69 | 4.93 | 3.02 | **6.06** | **5.51** |
| 99 | 6.48 | 0.80 | -0.40 | 7.17 | 6.17 | 2.20 | 3.51 | 1.90 | 3.42 | 2.48 | 4.17 | 2.72 | 4.58 | 0.00 | 9.67 | 5.27 | 2.53 | 1.53 | 10.97 | 3.55 | **3.94** | **2.99** |
| 100 | 28.10 | -1.22 | 26.35 | 14.64 | 9.80 | 0.20 | 11.36 | 3.43 | 12.86 | 7.19 | 5.13 | 14.94 | 4.68 | 1.59 | 19.96 | 9.27 | 25.20 | -8.77 | 23.68 | 13.63 | **11.10** | **10.02** |
| **Mean** | 12.70 | -8.69 | 20.91 | 14.33 | 6.36 | -8.88 | 15.25 | 6.26 | 20.98 | 6.98 | -0.44 | 9.97 | 11.85 | 2.58 | 11.76 | -5.02 | 14.27 | -16.13 | 17.87 | 12.75 | | |
| **Standard deviation** | 6.83 | 7.63 | 8.47 | 6.38 | 4.32 | 6.48 | 10.54 | 6.29 | 9.18 | 5.85 | 4.79 | 5.54 | 7.66 | 5.90 | 7.68 | 7.05 | 6.79 | 9.68 | 7.86 | 7.60 | | |
| **Lower quartile** | 8.14 | -13.62 | 17.19 | 10.10 | 4.15 | -13.00 | 10.38 | 3.22 | 16.17 | 2.83 | -3.45 | 7.96 | 7.91 | -1.31 | 7.20 | -9.33 | 10.67 | -23.58 | 13.61 | 8.74 | | |
| **Upper quartile** | 17.24 | -3.93 | 25.92 | 19.20 | 9.24 | -5.57 | 21.93 | 8.08 | 27.65 | 10.20 | 1.83 | 12.92 | 15.29 | 5.81 | 14.84 | -1.32 | 18.46 | -11.40 | 23.51 | 17.37 | | |

# *APPENDIX - G* •

## Questionnaire

# QUESTIONNAIRE

## *An analysis of the investment environment and the investment decisions in South Africa from 1990 to 1999 for individual investors.*

Please help me to assess the impact of the economic, social and political changes during the nineteen-nineties on investment performance and investment strategy. Your assistance would be appreciated. This survey is part of a research project to understand the influences of the changes during the nineteen-nineties on investment planning. Your opinions will help to gain insight into the events and the effects on investment planning. Please complete the attached questionnaire and answer the questions freely. You cannot be identified from the information that you provide and be assured that this survey is completely confidential. Your answers are important in gaining an assessment of the perceptions during the period under review.

I hope that you find the questionnaire interesting and I do appreciate your time and effort in supplying information.

Thank you

Stanley Harris

## Appendix G

# SOUTH AFRICA 1990 TO 1999

### Economic, social and political changes during the nineteen-nineties.

### How did the changes influence the investment decisions?

1 How important were the changes during this period on investment decision-making?
***(Tick the appropriate box)***

| | |
|---|---|
| | Very important |
| | Quite important |
| | Undecided |
| | Of little importance |
| | Not important |

2 Was the South African economic, social and political environment conducive to successful investing?
***(Tick the appropriate box)***

| | |
|---|---|
| | Yes |
| | No |
| | Not sure |

Please briefly expand on the answer given above:

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3 How often did you change your investment plans / strategy?
***(Tick the appropriate box)***

| | |
|---|---|
| | Never |
| | Rarely |
| | Sometimes |
| | Often |
| | Very often |

4 Were these changes in 3 above as a direct consequence of any of the following:
***(Tick the appropriate box or boxes)***

| | |
|---|---|
| | Economic changes |
| | Social changes |
| | Political changes |
| | Other changes (specify) |

**5** What events influenced the investment process positively?

**a** ---------------------------------------------------------------------------------

**b** ---------------------------------------------------------------------------------

**c** ---------------------------------------------------------------------------------

**6** What events influenced the investment process negatively?

**a** ---------------------------------------------------------------------------------

**b** ---------------------------------------------------------------------------------

**c** ---------------------------------------------------------------------------------

**7** What factors did you consider important during this period for successful investing?

**a** ---------------------------------------------------------------------------------

**b** ---------------------------------------------------------------------------------

**c** ---------------------------------------------------------------------------------

**d** ---------------------------------------------------------------------------------

**8** What was your opinion of the investment risk during this period?

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**9** What was your opinion of the availability of the global investment markets?

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**10** What was your assessment of the overall investment environment in South Africa during the period under review?

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